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ABSTRACT

Designed for use in a franchising workshop, this manual provides information on becoming a franchisee. Introductory remarks discussing the benefits and challenges of becoming a franchisee and describing the workshop itself are followed by the course outline. Next, for each of the course's six units, the manual states the core idea, goals, and agenda; and presents handouts, resources, and homework. The units cover: (1) Introduction to Franchising; (2) You, Business and the World of Franchising; (3) Evaluating a Franchise--The Concept; (4) Evaluating a Franchisee--The Franchisor; (5) The Franchisee-Franchisor Relationship; and (6) Supervision. Finally, the franchise workshop leader's guide is presented. (LAL)

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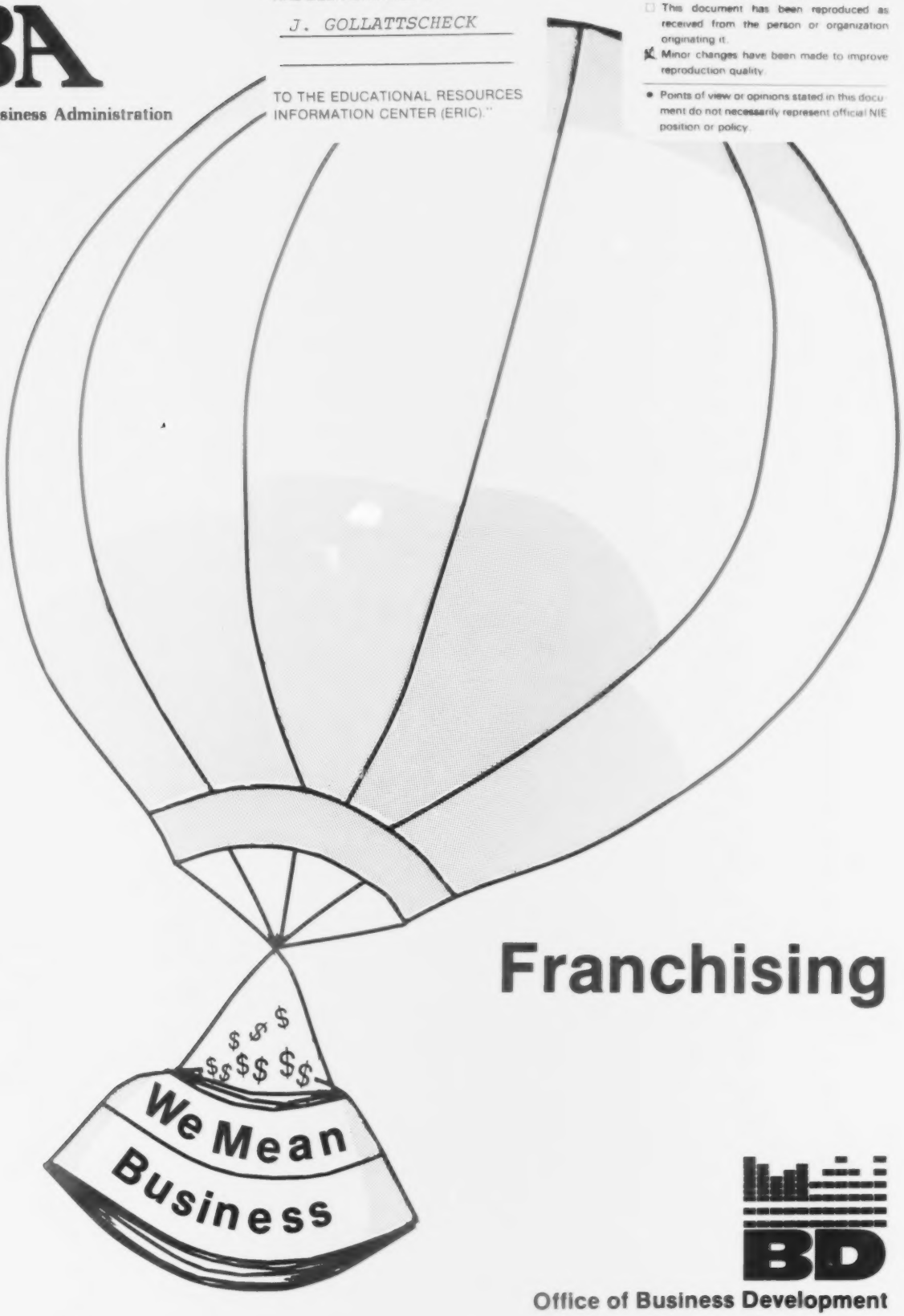

Franchising

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SBA

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BUSINESS FRANCHISING:
BECOMING A SUCCESSFUL FRANCHISEE

by Richard Cornell

THE FRANCHISING WORKSHOP: AN INTRODUCTION

BECOMING A FRANCHISEE

Becoming a franchisee can fulfill a lifelong dream of running one's own business. It can be a chance to leave the structured role of employee and move into the world of small business ownership. This workshop is designed with one goal in mind: to increase the number of successful franchisees.

As the entrepreneurial explosion rolls across the U.S., more and more people will attempt to "be their own boss." Franchising will be seen by many as the way to go. They will be told, and rightfully so, that becoming a franchisee is a safer way to go into business than starting from scratch. They will be told that more millionaires have been created through franchising than any other business process. They will not be told that many of these millionaires have been the franchisors themselves, not the franchisees.

The franchising process is one of three ways of going into business. The other two are creating a business from scratch or buying an existing business. According to Small Business Administration statistics, fewer franchise outlets fail within the first five years than do businesses that have been newly established.

Franchising has many advantages. It enables the franchisee to take advantage of the management and business expertise of people who have pioneered a particular product, idea or concept. Without franchising many people would never be able to develop the management expertise and the business image they can achieve in a franchise. This ability to purchase a successful business concept and management team is both the main advantage of franchising and its main peril. When people enter a franchise, they are gambling most of their life resources on the ideas and integrity of the franchisor. They are also giving a good portion of their time for the rest of their lives as franchisees.

The decision to become a franchisee should be weighed carefully. The purpose of this workshop is to give prospective franchisees the tools to help them make the best decision they can. They will never have all the information they need since, by definition, a decision means moving into the unknown. However, a point is reached in every endeavor where one has to act on the information which is available. When a person is deciding to become a franchisee with a particular franchisor she or he is making two decisions. The first is to be a franchisee, and the second is to become affiliated with a particular franchisor.

A franchisee plays a special role, not necessarily that of an entrepreneur. In fact some people say the "typical" entrepreneur will not be successful as a franchisee because a franchisee must operate within the rules established by the franchisor. After all, that is what the franchisee is buying--the concept and management support of the franchisor. Franchising is like a security blanket. Many people feel comfortable with it, most entrepreneurs do not. Hopefully, one outcome of this workshop will be that individuals will gain a greater awareness of the role of the franchisee and whether or not they wish to become one.

Selecting a franchisor in a particular industry is the second key decision that the prospective franchisee must make. He or she must keep in mind that franchisors have their own goals, and these are usually to have successful franchisees. All franchisors are interested in making money. Some see profits as a long term process of building franchisees. Others, and these are the ones we need to watch out for, are those who have more short range interests. They want growth and quick cash now. The dreams of the franchisee are sometimes exploited to achieve those goals. Regardless of the motives and the integrity of the franchisor, this point must be kept in mind: once the decision to become a franchisee is made, it is the franchisee who pays 99 percent of the price if the outlet fails. Since the franchisee takes the risk, his or her decision must be made carefully.

Potential franchisees should not rely solely upon the information provided by the franchisor. Instead, they should approach the process as an independent researcher. To the best of their ability they must study the market and develop a team of experts to aid them in gathering all the information necessary to make the best decision.

ABOUT THIS WORKSHOP

This workshop has been designed as just that, a WORK SHOP. Participants who aren't able to put in the work are in trouble before they begin. Class sessions will be spent providing resources and sharing ideas. The participants' real work should be done between sessions.

The course is divided into six sessions. It may be helpful to consider this package as a menu rather than a tightly constructed, step-by-step process. It is essential to take time in the first session to determine expectations and where people are in their quest. Look through the entire package. Become aware of what is available. You may find after the first session that, for your group, some of the handouts may be more relevant earlier in the course. If the class requires additional information, provide it as soon as you are able.

A special note needs to be made regarding units IV and V which deal with selecting a franchisor and the franchisor/franchisee relationship. There is a fine line between the units and their content may overlap.

Finally, a note to you as a prospective course leader. It is highly probable that you are not an expert in franchising or that you only have experience in one type of franchise. Even if you are an expert in franchising, we encourage you to be a resource facilitator--a guide to resources. Being a franchisee means an 80 hour week for most people. If they can't work that many hours at the beginning, their chances of being successful are slim.

Two areas need some additional discussion. Session VI, as you will note, deals with supervision of staff. The supervision of people and the professional growth and development of employees is often a major weakness of many franchisees. Session VI doesn't begin to touch on this issue. Due to the tremendous range of training and development that is available, it was necessary to choose, and thereby limit, the resources. We chose employee selection, orientation, regular feedback and performance appraisal as areas of concentration. Depending upon your participants, you may wish to enlarge the scope.

Another topic which is not dealt with, though it is important, is that of personal financial planning. It is suggested that a financial planner be included on the panel of experts. There is no financial planning material in the curriculum. Nor are concepts like personal balance sheets and cash flow dealt with here. Serious prospective and new franchisees should be encouraged to take small business training classes to develop their skills in this and all other areas of business management.

COURSE OUTLINE

I. INTRODUCTION

A. The roots of franchising.

B. The franchising concept.

C. Facts about franchising.

D. How to research the world of franchising.

II. YOU, BUSINESS, AND THE WORLD OF FRANCHISING

A. How franchising differs from other ways of going into business.

B. Is franchising for you?

C. The role and life of the franchisee.

D. Knowing yourself.

E. Matching your interests with a particular franchise.

III. EVALUATING A FRANCHISE—THE CONCEPT

A. Assessing the market potential in a given industry.

B. Looking at regional differences among markets.

C. Why you need to conduct your own market research.

D. How to do a simple market research study.

E. Tips on a location analysis.

IV. EVALUATING A FRANCHISE—THE FRANCHISOR

A. Evaluating what you should get from a franchisor:

1. A powerful trademark or service name

2. Purchasing advantages

3. Training and management assistance

B. Evaluating the intangibles.

C. Why it is important to buy expert advice.

D. How to shop for and purchase advice.

E. How franchises are regulated:

1. Disclosure statement requirements

2. State and federal regulations

V. THE FRANCHISEE/FRANCHISOR RELATIONSHIP

A. This relationship is much more than a legal document.

B. How to get the relationship off to a good start.

C. How to review a franchise agreement.

VI. SUPERVISION AND MANAGEMENT

A. Long term success depends on the franchisee's management and supervisory ability.

B. How to develop your management and supervisory skills—for now and for the future.

C. Key skills to develop:

1. Effective hiring

2. Proper orientation of new employees

3. Why feedback is so critical

4. How to conduct a meaningful performance appraisal

D. How to give feedback.

E. Managing management time--the most critical skill of all.

UNIT I: INTRODUCTION TO FRANCHISING

Core Idea:

This session lays the groundwork for the entire course. The most important outcome ought to be expression of participant expectations and needs. This is basically the formation of a psychological contract between the leader and the group. What will the leader do? What is the responsibility of the participant? Participants should begin to grasp the franchising concept and how to begin researching their area of interest.

Goals:

- Participants will become acquainted with each other.
- To determine expectation of participants.
- To acquaint participants with how the class will function.
- Participants will grasp the franchising concept.
- Participants will learn their responsibilities in the class.
- Participants will learn basic research techniques for researching the world of franchising.

Agenda:

- Provide a broad overview of the course.
- Distribute course outline.
- Describe your teaching philosophy.
- Ask participants to introduce themselves and state what they would like to get from the class.

- o Make a presentation on the roots and concept of franchising, using presentation guide and visuals.
- o Present homework for next session.
- o Tell them what subject matter the next session will contain.

Guest Speaker:

Invite your local librarian to make a presentation on how to research franchises. Ask the participants to focus on one particular industry to research from a franchise perspective.

Handouts:

- — Franchising Resource Directory
- — Franchising Terms
- -- Franchising Pre-Test
- -- Comments about Franchising
- -- Facts on Franchising

Visuals:

- — "The World of Franchising"
- — "Business Learning Curve"
- -- "Entrepreneur, Franchisee, Employee"

Assignment:

Visit a library. Look up material on franchising. See what there is in the reference section; talk to the librarian about the topic. Contact at least two people who run franchises in the area. Talk to them about their experience. Keep in mind that they may be good speakers for the class. Be prepared to make a report on this for the next session.

FRANCHISE RESEARCH GUIDE

You are the one responsible for conducting research in the area of franchising in which you are most interested. There is probably nothing as important as research as you form your decision to become a franchisee. The franchised method of doing business is unique because you not only make a large, up-front investment in an idea, but also in a group of people. Research won't guarantee that you make the right decision but it will certainly increase the probability of being right.

The general areas you will need to investigate are:

A PARTICULAR INDUSTRY
LOCAL MARKET CONDITIONS
THE FRANCHISING PROCESS
A PARTICULAR FRANCHISE
MANAGING A SMALL BUSINESS AND SUPERVISING PEOPLE

Your best friend in this process will be a reference librarian. Don't expect this person to do your work for you, but if you ask for what you need then you will be referred to the right place. This guide is designed to give you a start.

RESEARCHING AN INDUSTRY: There are many guides that can aid you in getting data on specific industries. A good place to look is in magazines and newspapers. Here are some guides:

"Readers Guide to Periodical Literature"--This is an index to articles in popular magazines. You can find a listing under a specific industry or franchising in general.

"Business Periodicals Index"--As the name implies, it is a guide to business periodicals.

"Business Publications Index and Abstracts"--This provides brief summaries of various articles.

"Predicasts F&S, Inc. Index"—Covers over 750 financial publications, business oriented newspapers, product trade magazines, and special reports.

"Wall Street Journal Index"

"New York Times Index"

RESEARCHING FRANCHISING—For general information on franchising.

The International Franchise Association
1350 New York Avenue, N.W.
Suite 900
Washington, D.C. 20005
202/628/8000

This is a lobbying group for franchisors. You can receive publications from them which will be helpful. Remember membership in this organization does not guarantee that a particular franchise is for you.

The U.S. Small Business Administration
144 L Street N.W.
Washington, D.C 20416
202/653/6365

BOOKS

Directory of Franchising Organizations
Pilot Books
247 Fifth Avenue
New York, NY 10016

BOOKS CONT'D

The Franchise Annual Handbook and Directory
INFO Press
736 Center Street
Lewiston, NY 14092

Franchise Rights: A Self-Defense Manual for Dealers, Distributors, Wholesalers, and Other Franchisees
Alexander Hammond
Panel Publishers
Greenvale, NY (1979)

Franchise Opportunities Handbook
Franchising in the Economy

Both of the above are published annually by the U.S. Department of Commerce. To obtain these contact:

Superintendent of Documents
U.S. Government Printing Office
Washington, D.C. 20402

Investigating Before Investing
Published by the International Franchise Association.
See address above.

SOURCES OF FRANCHISING INFORMATION

(Books, Pamphlets, Periodicals, Directories, Etc.)

A Decade of Franchise Regulation. International Franchise Association, 1025 Connecticut Ave., Suite 707, Washington, D.C. 20036. $6.00.

A series of articles by Lewis G. Rudnick, IFA's special counsel, on the development of stat franchise legislation.

A Franchising Guide For Blacks. Thomas B. Jones, Pilot Books, 103 Cooper St., Babylon,N.Y. 11702. 40 pp. $2.

Directed to blacks who are ambitious and want to be their own boss. Steps to be taken in financing a franchise, the need for legal advice, evaluation of a franchise opportunity, etc., are covered. List 150 current franchising opportunities.

A Woman's Guide To Her Own Franchised Business. Anne Small and Robert S. Levy. Pilot Industries, Inc., 103 Cooper St., Babylon, N.Y. 117902. 47 pp. $2.50.

Explains the opportunities that have been created for women and how to take advantage of them. Includes a listing of over 150 franchise opportunities.

Answers to the 21 Most Commonly Asked Questions About Franchising. International Franchise Association, 1025 Connecticut Ave., Suite 707, Washington, D.C. 20036. $1.00

Business Building Ideas For Franchises and Small Business. Med Serif. Pilot Industries, Inc., 103 Cooper St., Babylon, N.Y. 10702. 48 pp. $2.50.

Presents helpful ideas and suggestions on the promotional aspects of establishing a new business.

Business Franchise Guide. Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Il 60646. Monthly or more as required. For price contact CCH, Inc.

Contains laws, rules, regulations and reports of current developments involving State & Federal franchising controls.

The Chain-Restaurant Industry. D. Daryl Wyckoff & W. Ear Sasser. Harvard University, The Lexington Casebook Series in Industry Analysis, Cambridge, MA 02138. 1978 270 pp. $17.95 LC 77-2048 ISBN 0-669-01440-0.

This discussion of the management problems faced by the chain restaurant industry is presented in a series of case studies designed for use at the Harvard Graduate School of Business. A discussion of the dimensions of the chain restaurant industry is included. Of interest to the chain restaurant industry and all those involved in food processing and delivery.

Checklist For Going Into Business. Small Business Administration, Washington, D.C. 204116. (Small Marketers Aids No. 71, Reprinted September, 1977, 12 pp., Free.

Checklist designed to help the prospective franchisee decide whether he is qualified or has considered the various phases of going into business for himself.

The Complete Handbook of Franchising. David D. Seltz, Addision-Wesley, Gen. Books Div., Reading, MA 01867. 1981, 247 pp. $49.95.

For both franchisors and franchisees, this definitive handbook takes a step-by-step appraoach through the entire process—from planning and feasibility determination right through setup and daily operation.

Continental Franchise Review. P.O. Box 6360, Denver, Co., 80206. Bi-weekly, $135 annual subscription. Six month trial subsciption available for $60.

Eight-page analytical newsletter to keep both franchisors and franchisees informed and current on important topics.

Directory of Franchise Business Opportunities. Franchise Business Opportunities Publishing Co., Suite 205, 1725 Washington Rd., Pittsburgh, PA 15241 Published yearly $23.95 plus postage.

Includes over 1,000 franchise and business opportunities with perinent data and home office and/or business address.

Directory of Franchising Organizations. Revised annually. Pilot Industries, Inc., 103 Cooper St., Babylon, N.Y. 10702. $5.00.

A comprehensive lising of the nation's top money-making franchises with concise decription and approximate investment. Includes important facts about franchising and evaluation checklist.

Financial Security and Independence Through A Small Business Franchise. Donald J. Scherer.Pilot Industries. 103 Cooper St., Babylon, N.Y. 11702. Revised 1973. 48 pp. $3.50.

Guide describing the management requirements, basic record-keeping methods, proper financial arrangements, and income potential to be derived from the establishment and operation of a franchise business with limited investment.

must examine their operations if their enterprises are to avoid destruction through legal attacks

Franchising: Regulation of Buying and Selling A Franchise. Philip F. Zeidman, Perry C. Ausbrook & H. Bret Lowell. Bureau of Nat'l Affairs, 9435 Key West Ave., Rockville, MD 20850 (CPS Portfolio #34. $50.

Provides a "how to" guide to franchise registration and disclosure and an in-depth analysis of the legal requirements for determining when a "franchise exists.

Franchising World. International Franchise Association, 1025 Connecticut Ave., Suite 707, Washington, D.C. 20036. $24 per year.

IFA's quarterly newspaper that gives you all the news on what's happening in franchising—operational, legal, legislative coverage plus indepth interviews with franchisors, profiles on new members, meeting announcements, and tidbits on individual franchise company events.

FTC Franchising Rule: The IFA Compliance Kit. (International Franchise Association, 1025 Connecticut Ave., Suite 707, Washington, D.C. 20036. $80.

A comprehensive overview of the FTC Rule and the various state of disclosure requirements rounded-ot with explanatory analyses, comparisons, and checklists prepared by IFA legal staff. Packaged in a handy 3-ring binder, the kit includes and update service of all advisory opinins issued.

Future Opportunities in Franchising. Nancy Suway Church. Pilot Industries, Inc., 103 Cooper St., Babylon, N.Y. 11702. 48 pp. $3.50.

Analysis of trends in franchising and a projection of opportunities for the propective franchisee.

Going Into Business the Franchise Way. Changing Times, Reprint Service, 1729 "N" St., N.W., Washington, D.C. 20006. April 1977. pp. 7-10.

Why franchising? The cost, company, product or service, market, profit potential, operating conditions, assistance from the franchisor and the franchise contract.

Government Regulation of Real Estate Franchising. Peter D. Baird, John L. Hay and Judith M. Baily. Appears in American Bar Association publication, Real Property, Probate and Trust Journal, Pages 580-619, Vol. 12, Fall 1977. Can be found in any law library.

An excellent summary and guide to regulatory issues and actions facing real estate franchisors.

The Guide To Franchising. M. Mendelsohn. Pergamon Press, Inc., Fairview Park, Park, Elmsfork, NY 10523. 3rd Edition, 1982, 275 pp. $25.

A reference guide to the basic principles of U.K. franchising, the meaning, advantages and disadvantages are detailed. Types of products and services, selection, fees, leasing, contracts, services, training and the future of franchising are discussed. Examined are the operations of eight established U.K. franchisors. Information on entering the U.K. market from abroad also is provided.

How To Be A Franchisor. Robert E. Kushell and Carl E. Zwisler III, International Franchise Association, 1025 Connecticut Ave., Suite 707, Washington, D.C. 20036. $5.95.

This booklet provides step-by-step details about how to launch a franchise program. Written from both the operational and legal perspectives, this is necessary reading for all potential franchisors.

How To Evaluate A Franchise. Martin Mendelsohn. Franchise World, James House, 37 Nottingham Road, London SW17 7EA, England. Check for price.

A guide for those who are planning to set up on their own in a franchise bvusiness.

How To Franchise Your Business. Mack A. Lewis. Pilot Industries, Inc., 347 Fifth Ave., New York, NY 10016. 1974. 48 pp. $3.50.

This book shows, step by step the procedures to follow to franchise a business. The information given is not theoretical. Actual franchise operations were started and successfully marketed using the methods.

How To Get Started In Your Own Franchised Business. David Seltz, Farnsorth Publishing Co., 78 Randal Ave., Rockville Center, NY 11578. 320 pp. $19.95. Rev. 1980.

Provides step-by-step direction for judging a franchise, choosing a location, evaluating an agreement, obtaining financing, promoting your business and under standing franchise laws.

How To Organize A Franchise Advisory Council. International Franchise Association, 1025 Connecticut Ave., Suite 707, Washington, D.C. 20036. $10.

A major contribution to smoother franchisee relations, this publication explains the benefits of councils and tells in detail how to set them up.

How To Organize And Operate A Small Business, 5th Ed. Baumback, et al. Prentice-Hall, Englewood Cliff, NJ 07632. 1973. 612 pp. $11.95 (013-425736-7).

Role of small business in the economy. Buying a going concern. Justifying a new business. Acquiring a franchise. Financing and organizing the business, etc.

How to Prepare Effective Business Program Blueprints. David D. Seltz, Addison-Wesly, Gen. Books Div, Reading, MA 01867. 1981, 167 pp, $25.95.

The book shows how to develop a system for "blueprinting" any new venture or concept; tells how to sell others on the merits of a program, and most importantly, helps to determine the feasibility of a program.

The Info Franchise Newsletter. Info Press, 736 Center St., Lewiston, NY 14092. Monthly $60 annual subscription, $100 two years.

A 8-page newsletter concerning recent franchise legislation, franchise litigation and other current news in the franchise world.

International Franchising: An Overview. Science Publishing Co., Inc., P.O. Box 1663, Grand Central Station, New York, NY 10163. $61.50.

A volume containing papers presented by the Int'l Franchising Law Committee of the Int'l Bar Association's section on business law. Includes a survey of more than 20 countries and an introduction to franchising and its legal implications in those territories.

The Franchise Annual. Info Press, 736 Center St., Lewiston, N.Y. 14092. Annual, $19.95 plus $3.00 postage

Includes over 2,500 franchise headquarters with description and investment requirements. Handbook section details pertinent franchise information and how to enter a franchise agreement.

The Franchise Game. (rules and players). Harold Nedell. Olempco, Dept. C., P.O. Box 27963, Houston, TX 77027. $8.

Deals with emotional, physical, and mental traumas experienced by franchisees and provides insight from the point of view of franchisors as well as franchisees.

Franchise Index/Profile. Small Business Administration, U.S. Government Printing Office, Washington, D.C. 20402. 1973. pp. 56. $2 N 4500-00125-3.

A franchise evaluation process covering the franchise in general, the franchise company, finance and legal, training, marketing and home office support.

Franchise Investigation A Contract Negotiation. Harry Gross and Robert S. Levy. Pilot Industries, Inc., 103 Cooper St., Babylon, N.Y. 11702. 40 pp. $2.50.

Explains how to select, analyze and investigate a franchise and then what to look for when negotiating the franchise contract.

Franchise Law Bibliography. American Bar Association, 750 N. Lake Shore Dr., Chicago, IL. 60611 $20

Contains over 350 annotated entries dealing with the law of franchising covering the years 1966 through mid-1982.

The Franchise Option. DeBanks M. Henward, III, and William Ginalski, Franchise Group Publishers, 4350 E. Camelback Rd., S-140B Phoenix, AZ 85018. 1980. 186pp $34.50 plus $2.50 for postage.

A complete guide to franchising. How to franchise or expand your business through franchising including legal and regulatory issues.

Franchise Restaurants. The National Restaurant Association, 311 1st St., N.W., Washington, DC 20001. $5.

Statistical appendix highlighting franchise restaurant growth between 1973 and 1984 Includes sales and establishment data, employment, international franchising and minority ownership.

Franchise World. Published by Franchise Publications, James House, 37 Nottingham Road, London SW17 7EA, England. Quarterly subscription 25 English pounds annually.

A magazine with current franchise topics and featuring business opportunities in franchising in the United Kingdom.

Franchise Rights—A Self-Defense Manual For The Franchisee. Alex Hammond. Hammond & Morton, 1185 Ave. of the Americas, New York, NY 10036. 1980. $29.95 plus $1.50 postage.

Contains some perceptive insight into the franchisor/franchisee relationship, and, in advising franchisees, highlights some of the pitfalls which can ensnare the unwary franchisor.

Franchising. Gladys Glickman, Matthew Bender & Co., Inc., 235 East 45th St., New York, NY 10017. 1979 Revision. 4 volumes, 15, 15A, 15B &15C of the Business Organization Series. $260.

A legal look at franchising—for both the franchisor and the franchisee, including franchise relationships, legal and business problems, and development of the franchise-distribution agreement with legal citations footnoted. Also covers the legal, tax, and estate planning problems facing the franchisee. Full text of state laws.

Franchising. Dr. Alfred J. Modica. Published by Quick Fox, distributed By Acidom Publishing Co., PO Box 22, Scarsdale, NY 10583. 1981, 159 pp. $12.95.

Provides the practical advice necessary to succeed in franchising. Geared to special situation service related franchise. How to get into your own franchise business for less than $5,000.

Franchising. Small Business Reporter, Bank of America, Department 3120, P.O. Box 37,000 San Francisco, CA 94137. Vol. 9. No. 1978. 6 pp. $2.

This report examines: various franchise systems, the franchisor/franchisee relationship, the franchise agreement, finding and evaluating a franchise, franchising and its critics, legislation and arbitration, etc. Sources of further information are noted.

Franchising: How to Successfully Select a Money Making Business of Your Own. Bruce Scher. Bay Publishing Co., 316 Fifth Ave., N.Y., NY 10001. 143 pp. $1.95.

New consumer guide written for the individual considering a career in franchising. Lists the 8 major mistakes overlooked in the selection process. Shows how to investigate and evaluate all franchise opportunities.

Franchising: Its Nature, Scope, Advantages, and Development. Charles L. Vaughn, D.C. Heath and Company, 125 Spring St., Lexington, MA 02173. 1979. 288 pp. $21.95

A comprehensive up-to-date overview of the nature, scope, and history of franchising with 10-year trend charts as well as practical advice and information to students of marketing, potential franchisors and franchisees, lawyers, bankers, and large companies, contemplating entering the field. An expanded version of the first edition with a new chapter on the role of franchising in marketing and a summary of the new Federal Trade Regulation Rule on disclosure in franchising. Notes, Tables, figures, index, bibliography, appendixes.

Franchising In The Economy—1982-84 U.S. Department of Commerce, Washington, D.C. 20230. $2.50.

Summarizes the results of a special survey of franchisors and includes historical data on franchising growth between 1969 and 1984.

Franchising Realities & Remedies. Harold Brown. New York Law Journal, 258 Broadway, New York, NY 10007. Summer 1972. $20.

Outlines sound courses of action franchisees may consider and sound principles against which franchisors

International Franchise Association Directory of Membership. International Franchise Association, 1025 Connecticut Ave., N.W., Suite 707, Washington, D.C. 20036. $1.95.

List of members including investor data and Investigate Before Investing.

Investigate Before Investing: Guidance For Prospective Franchisees. Jerome L. Fels & Lewis G. Rudnick, International Franchise Association, 1025 Connecticut Ave., N.W., Suite 707, Washington, D.C. 20036. 1974. 32 pp. $3.00.

Explains how to investigate and evaluate franchise offerings before investing.

Pilot's Question and Answer Guide To Successful Franchising. Pilot Industries, Inc., 103 Cooper St., Babylon, N.Y. 11702. 32 pp. $2.00.

Discussion of the franchise system with question and answer guide and checklist.

Protecting Your Franchising Trademark and Trade Secrets. Donald A. Kaul, International Franchise Association, 1025 Connecticut Ave., N.W., Suite 707, Washington, D.C. 20036. $10.

An overview of the techniques which a franchiser can use to protect the trademark under which he operates.

Starting A Business After 50. Samuel Small. Pilot Industries, Inc., 103 Cooper St., Babylon, N.Y. 11702. 1974. 48 pp. $2.50.

Information on how to establish a small business, an franchise business, and a business at home. Includes a list of over 175 franchise opportunities.

Survey of Foreign Laws and Regulations Affecting Internation Franchising, complied by the Franchising Committee of the Section of Antitrust Law of the American Bar Association. Publications Planning & Marketing, American Bar Association, 705 N. Lake Shore Dr., Chicago, IL 60611. $50.

Developed from survey work in 20 separate countries, the book provides current information on such topics as the business climate and legislation affecting foreign franchisors; tax aspects; customs; and import-export controls; forms of doing business; labor; trademarks; antitrust laws; insurance/liability; and investment incentives.

U.F.O.C. Guidelines. International Franchise Association, 707 Connecticut Ave., Suite 1025 Washington, D.C. 20036. $10.00.

Instructions for completing the Uniform Franchise Offering Circular. Prepared by the Midwest Securities Commissioners Association for use by franchisors in meeting state and federal disclosure requirements.

Understanding Franchise Contracts. David C. Hjelmselt, Pilot Books, 103 Cooper St., Babylon, N.Y. 11702. $3.90

Analyzes the various aspects of a franchise contract and the Federal Trade Commission full disclosure regulation.

UNIT I: PRESENTATION GUIDE

I. THE ROOTS OF FRANCHISING

A. It's not new -- it goes back to the early church.

B. It has evolved as a way to distribute new products.

II. THE DEFINITION OF FRANCHISING

III. THE FRANCHISING CONCEPT TODAY

A. Product

B. Business format

C. Combination

IV. THE RECENT HISTORY OF FRANCHISING

A. The franchising explosion--why?

1. The interstate system

2. Technological change

3. Television advertising

4. Push for personal independence

B. Why the franchising concept has been so successful:

1. Builds from an established image

2. Provides customers with consistent quality

3. Builds from a base of high quality management

V. FRANCHISING FROM THE FRANCHISORS POINT OF VIEW

A. A way to make money.

B. Process enables rapid growth by providing an ongoing source of capital from the franchisees.

C. For the system to succeed standards must be maintained. This includes high quality franchisees.

D. The Colonel Sanders story--seek permission from Viking Press to excerpt the piece on this from ROADSIDE EMPIRES.

VI. FRANCHISING—ONE WAY OF GOING INTO BUSINESS

A. Ways of going into business:

1. Create a new business/product/concept
2. Buy an existing independent business (business brokers)
3. Get involved as a franchisee

B. Compare franchising with other businesses in terms of:

1. Risk
2. Establishing a customer base
3. Establishing a product line
4. Ongoing research and development
5. Management support
6. The local market picture

VII. RESEARCHING FRANCHISING

A. Basic sources of information on franchising:

1. International Franchise Association -
   a. history
   b. purpose
   c. code of ethics

B. U.S. Dept. of Commerce Franchising Guide.

C. How the franchise concept regulated:

1. Federal Trade Commission regulations
2. States disclosure requirements

HANDOUT

FRANCHISING TERMS

Franchise -- A right or privilege conferred on an individual or group.

Prototype Business -- A business site developed and used by the franchisor to develop and test new ideas.

Franchise Advisory Council -- A group formed by the franchisor to provide feedback from the franchisee's perspective.

Franchise Association -- A group formed by the franchisees to deal collectively with the franchisor.

Conversion Franchising -- Bringing together already experienced professionals to form a network (e.g., Century 21).

Product Franchising -- Selling the right to distribute a particular product. This is the way franchising began with Singer, General Motors, and Coca Cola.

Business Format Franchising -- This is the right to use a particular concept like Golden Arches and all that goes with it. The main benefit to the franchisee is the national image a particular business format has achieved.

Pyramid — A so-called business where the focus is on selling the right to sell a product versus selling the product itself.

International Franchise Association -- Lobbying association for member franchisors. Because a franchise is a member does not guarantee that it is solid.

Uniform Franchise Offering Circular — A document that you must, by law, be provided with before you sign on.

Franchise Agreement -- The guts of the franchisor/franchisee legal relationship. It's an absolute must for the franchisee to understand how this agreement determines what she or he can do.

Federal Trade Commission — The federal agency which administers franchisor disclosure laws.

HANDOUT

FRANCHISING PRE-TEST

Why do you want to become a franchisee?

About how many hours a week are you prepared to devote to business?

In what industry do you intend to operate as a franchisee (food service, auto repair, health)?

Why have you chosen this particular industry? How does your present level of expertise or interest relate to this industry? Do you like food? People?

How many different franchises have you investigated?

What evidence do you have that the business you have in mind will be successful in your market area?

What will you get from the franchisor that you can accomplish on your own?

Are you talking only to people who think this is really a great idea?

IF YOU ARE GOING TO BE INVOLVED WITH ANOTHER PERSON IN THIS FRANCHISE, HAVE HIM OR HER ANSWER THESE QUESTIONS INDEPENDENTLY AND THEN COMPARE YOUR ANSWERS. IF THERE ARE DIFFERING PERCEPTIONS ABOUT WHAT YOU ARE DOING AND WHY, YOU HAD BETTER FIND IT OUT NOW!

HANDOUT

COMMENTS ON FRANCHISING

"Running a franchise business means giving up your independence and playing by someone else's rules. If you're a successful executive used to power and perks, can you get up at 4 a.m. and bake doughnuts? Is your family willing to sacrifice prestige for profits?"

Thomas O'Donnell, "No Entrepreneurs Need Apply" Forbes, (Sept. 1984), p. 124.

"Since the 1950's more millionaires have been created this way than any other."

Andrew Kostecka
U.S. Department of Commerce

"Franchisees are not entrepreneurs. If they were, they could never take the regimentation and rules imposed on them. This is for people who value security above risk."

Alfred Modica, Marketing Specialist from "No Entrepreneurs Need Apply"

"The typical franchisee does not achieve wealth. Saddled with royalty payments and advertising costs, most operators cannot expect to earn much more than $25,000 a year from one outlet. Owners of parent companies have a better chance of succeeding, since they can strike it rich in one or two good years selling franchises."

Stan Luxenberg
Roadside Empires, (1985)
Viking, p. 61

"The franchisees serve as managers of the outlets and they take most of the risks, not the company. If the Taco Haven fails, the individual operator will be bankrupt; the parent company will suffer minimal losses. Even if the business concept is bad or the economy is declining, the chain can still grow as long as new franchisees are willing to invest in new outlets."

Roadside Empires, pp. 23-24

HANDOUT

FACTS ABOUT FRANCHISING

Franchised operations employ 5.2 million people in the U.S.[1]

Franchised sales account for one out of every three retail sales.[1]

Revenues through franchises totaled $640 billion in 1984 and were growing at a rate of 10%.[1]

There are 462,000 franchise outlets in the U.S., an increase of 10.3% in 15 years.[2]

The number of formal franchises has risen by 133% to 282,500 in the last 15 years.[2]

The failure rate of independent small businesses in the first 5 years is 65%, for franchises in the U.S. it is 3.3%.[2]

1. O'Donnell, Thomas, "No Entrepreneurs Need Apply," Forbes, (Dec. 3, 1984), pp. 124-130.

2. Whittemore, Meg, "The Great Franchise Boom," Nations Business, (Sept. 1984), p. 21.

EXERCISE

"FRANCHISE FACTS"

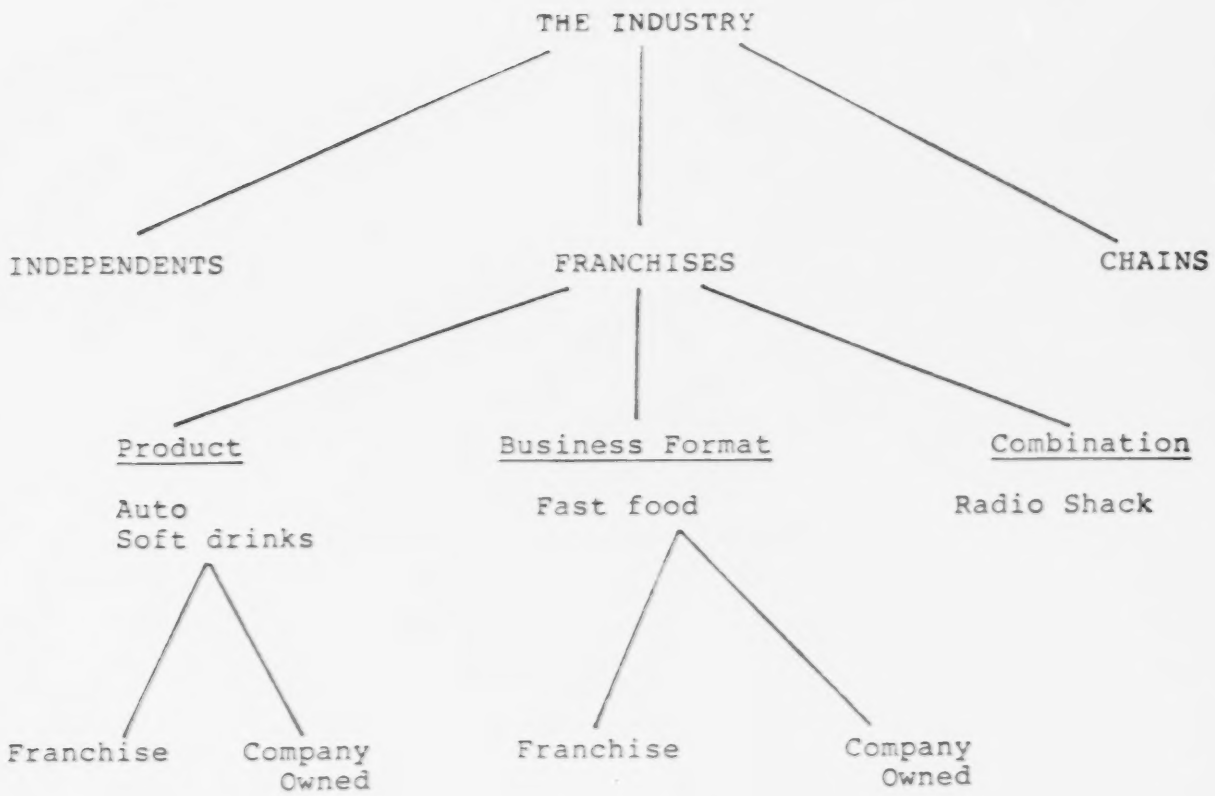
Take the sample franchise facts column from Venture Magazine, read it over and discuss.

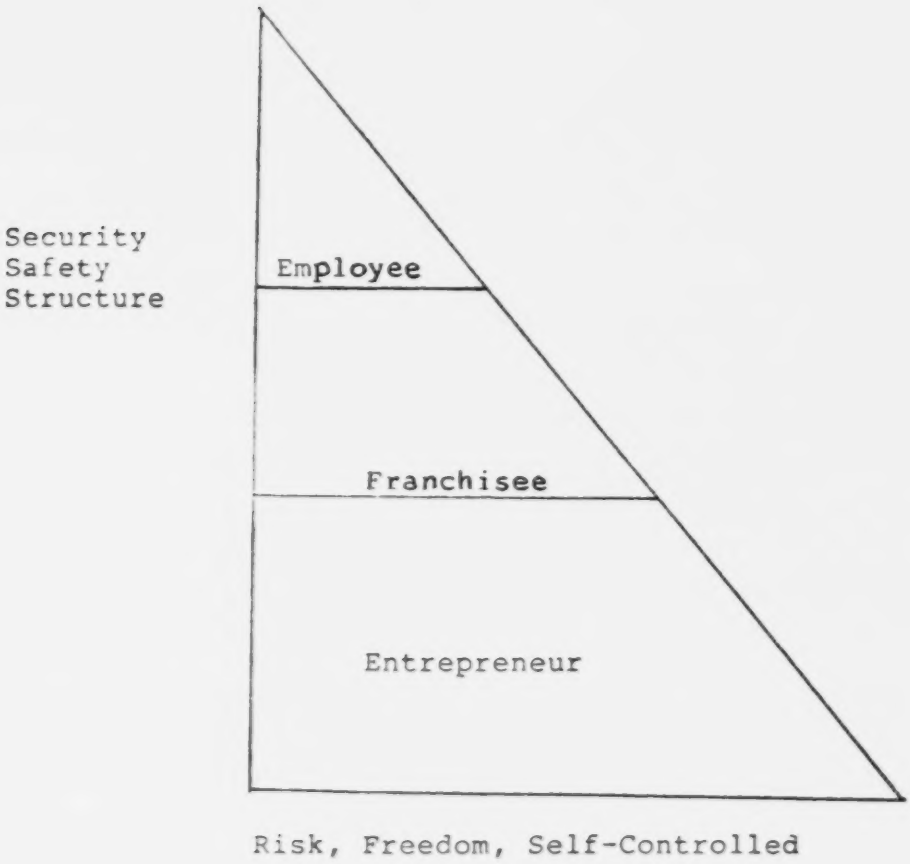
What is the state of the industry of these particular franchises?

What trend or change in the economy is driving this industry?

What evidence do you have that this national trend will apply to your region at this time? John Naisbitt, author of the MEGATRENDS, contends that new ideas start at the coasts and move toward the center. There have been many, many cases in which people have been ahead of their time and have failed.

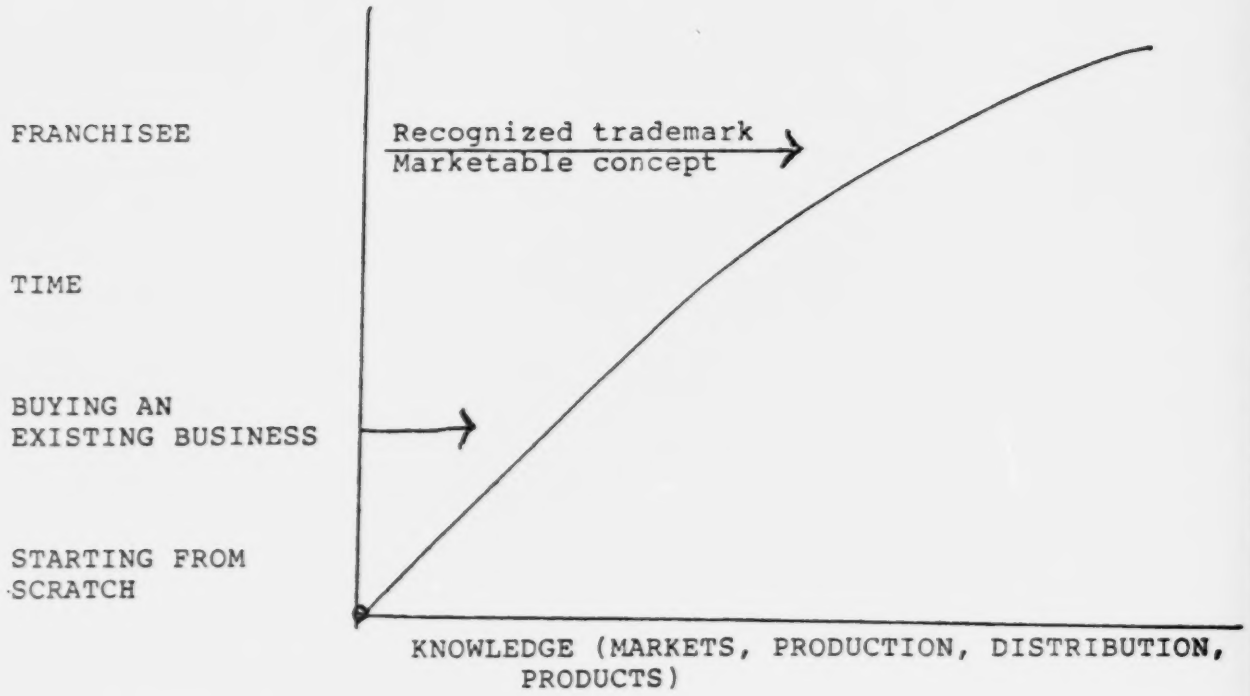
THE WORLD OF FRANCHISING





A franchisee is a person who ultimately chooses security over risk, yet in a sense, the franchisee can't control his risks as much as the entrepreneur because all his money is up front.

BUSINESS LEARNING CURVE



A GOOD FRANCHISE BUYS TIME

UNIT II: YOU, BUSINESS, AND THE WORLD OF FRANCHISING

Core Idea:

Being a franchisee is a special kind of occupation. This unit is designed to give participants a greater awareness of what a day in the life of the franchisee involves. The participants should be beginning to evaluate their skills, interests, and motives as they relate to franchising.

Goals:

- To identify the difference between creating a business, buying an existing business, and going into franchising.
- To help participants clarify their goals, motives, and skills as they relate to business ownership and being a franchisee.
- To increase participant awareness of the world of franchising--what is involved--how many hours, what a typical day is like, typical problems.
- To identify the difference between an entrepreneur and a franchisee and to get the point across that a franchisee may be termed semi-entrepreneur.
- To present the concept of the business plan and demonstrate its applicability to franchising.

BEST COPY AVAILABLE

FRANCHISING: The strings attached to being your own boss

You get marketing muscle and a recognized name. In return you give up some of your independence.

Franchising. The very word suggests success and big profits to many people. And franchising might be the only option for someone who wants to own a business.

"Most budding franchisees have never operated their own business," says Andrew Kostecka, a Commerce Department expert on franchising. "If they wanted to open a shoe store, they wouldn't know where to locate it, how large it ought to be, where to buy the merchandise or how much to buy and so on."

When you buy into a franchise, such as McDonald's, Midas Muffler, 7-Eleven or PIP (Postal Instant Press) stores, the franchisor trains you to run your business, helps you select a location and at regular intervals gives you advice on running your operation. You get the use of the franchise company's widely recognized and presumably respected trademark. You are given a ready-made market-

ing and operating plan based on the franchisor's experience.

Through the mass purchasing power of the franchisor, you may save on your cost of goods and supplies, and through the pooled advertising funds of you and other franchisees, your business will benefit from advertising that an independent business probably couldn't afford.

That help is not without a price. You'll shell out a lot of money to the franchise company: a franchise fee, which you must pay up front to get into the business; continuing royalties on the gross sales of your outlet; rent payments on land, buildings and equipment that you lease from the company; and fees for such things as business goodwill, "commercial value" of a location controlled by the franchisor, and services such as training and management.

The money that you and other franchisees pay allows the franchisor to expand its system rapidly.

Agenda:

- Discuss participants questions regarding their franchise research. How many interviewed a franchisee? What did they learn? How many did library research? What did they discover?

- Ask participants to review or complete the franchising pre-test distributed at the last session.

- Distribute the handout "Franchising--What is your motive?" Ask participants to read and reflect on the statements. Do any of the statements seem familiar to them? Are there additional reasons for becoming a franchisee which do not appear in the statements?

- Discuss the three ways of going into business. Divide participants into small groups to identify the pros and cons of each approach. Have groups share their reports with the class.

- Introduce a panel of local franchisees. Have them address these questions:

  How did they become a franchisee--their personal history.

  How does their relationship with their franchisor work? What kind of assistance do they get? What kind of problems do they experience?

  What have they learned since becoming a franchisee that they wish they had known before?

  What are some typical operational problems?

ON SETTING UP A PANEL: MEMBERS OF THE PANEL WILL ALMOST CERTAINLY BE BUSY PEOPLE, OFTEN MORE INCLINED TO ACT THAN BE PUBLIC SPEAKERS. TO RELIEVE POSSIBLE ANXIETY ABOUT SPEAKING PUBLICLY, TELL THEM HOW HELPFUL THEIR "OFF THE CUFF" REMARKS CAN BE TO NEWCOMERS TO THE FIELD. ASK THEM TO SHARE THEIR EXPERIENCE AND PARTICULAR POINT OF VIEW.

Handouts:

-- Checklist For Going Into Business

-- Ingredients For an Ideal Start-up Business Plan

-- Franchising--What Is Your Motive?

-- How To Go Into Business

-- Article--"Franchising--The Strings Attached to Being Your Own Boss" (Changing Times, Sept. 1984).

-- Article--"The People Who Take the Plunge--What You Need To Be An Entrepreneur" (Nations Business, June 1984).

-- Article--"No Entrepreneurs Need Apply" (Forbes, December 3, 1984).

Homework:

Continue to research the particular franchise area which interests you. Engage in personal reflection about the question "Is franchising for me?" Identify some of the pros and cons of franchising for yourself. Prepare a list and bring it to the next session. Complete the Going Into Business checklist. If your franchise will be a husband and wife undertaking, complete this checklist on each other. This should give you a better handle on your combined skills. Read over the items on the business plan and start gathering the necessary information. DEVELOP YOUR PERSONAL FINANCIAL STATEMENT.

U.S. Small Business Administration
Management Assistance
Support Services

Management Aids
Number 2.016

SBA

Checklist for Going Into Business

Summary

Thinking of owning and managing your own business? It's a good idea—provided you know what it takes and have what it takes.

Starting a business is risky at best; but your chances of making it go will be better if you understand the problems you'll meet and work out as many of them as you can before you start.

Here are some questions and worksheets to help you think through what you need to know and do. Check each question if the answer is YES. Where the answer is NO, you have some work to do.

Before You Start

How about You?

Are you the kind of person who can get a business started and make it go? (Before you answer this question, use worksheet number 1.) _____

Think about *why* you want to own your own business. Do you want to badly enough to keep you working long hours without knowing how much money you'll end up with? _____

Have you worked in a business like the one you want to start? _____

Have you worked for someone else as a foreman or manager? _____

Have you had any business training in school? _____

Have you saved any money? _____

How about the money?

Do you know how much money you will need to get your business started? (Use worksheets 2 and 3 to figure this out.) _____

Have you counted up how much money of your own you can put into the business? _____

Do you know how much credit you can get from your suppliers—the people you will buy from? _____

Do you know where you can borrow the rest of the money you need to start your business? _____

Have you figured out what net income per year you expect to get from the business? Count your salary and your profit on the money you put into the business _____

Can you live on less than this so that you can use some of it to help your business grow? _____

Have you talked to a banker about your plans? _____

How about a partner?

If you need a partner with money or know-how that you don't have, do you know someone who will fit—someone you can get along with? _____

Do you know the good and bad points about going it alone, having a partner, and incorporating your business? _____

Have you talked to a lawyer about it? _____

How about your customers?

Do most businesses in your community seem to be doing well? _____

Have you tried to find out whether stores like the one you want to open are doing well in your community and in the rest of the country? _____

Do you know what kind of people will want to buy what you plan to sell? _____

Do people like to live in the area where you want to open your store? _____

Do they need a store like yours? _____

If not, have you thought about opening a different kind of store or going to another neighborhood? _____

(Questions continue after Worksheets No. 1 and 2.)

Worksheet No. 1

Under each question, check the answer that says what you feel or comes closest to it. Be honest with yourself.

Are you a self-starter?

- ☐ I do things on my own. Nobody has to tell me to get going.
- ☐ If someone gets me started, I keep going all right.
- ☐ Easy does it. I don't put myself out until I have to.

How do you feel about other people?

- ☐ I like people. I can get along with just about anybody.
- ☐ I have plenty of friends—I don't need anyone else.
- ☐ Most people irritate me.

The People Who Take the Plunge

What you need to be an entrepreneur.

By Sharon Nelton

ENTREPRENEURS are the stars of the 1980s. Their admiring fans? Venture capitalists, lenders, workers grateful for jobs the entrepreneurs create and countless people who are dazzled by entrepreneurs' energy, creativity, courage and zest for what they are doing.

They have the same dream that many of us have—the dream of doing something on our own. The difference is, entrepreneurs actually do it.

Some of them become instant successes, creating the Apple Computers of the world. Others fall flat on their faces time after time, only to pick themselves up again. (Sheldon Adelson, president of Interface Group, the Needham, Mass., firm that is the largest producer of computer conferences in the country, says he has made and lost a million dollars twice in other businesses. Now he is a millionaire for the third time, and he intends to stay that way.)

Some people move from selling lemonade on the corner as kids to peddling T-shirts in college to running multimillion-dollar businesses as adults. They have always been entrepreneurs.

After pursuing corporate careers, others reshape themselves in their 30s and 40s into entrepreneurs, often through a grueling process of acquiring a new view of themselves. They unlearn old attitudes and replace them with new ones; they give up old ways of doing and experiment with new behavior.

Nearly 600,000 people started businesses in the United States last year, and the fervor to be one's own boss shows no sign of abating. Quite the contrary—this has been called the age of the entrepreneurs. Could you be one of them? What does it take?

Five years ago, using $25,000 from the house she sold before she moved in with her new husband, Lorraine Mecca started Micro D, a Fountain Valley, Calif., company that distributes microcomputer hardware and software to 4,000 retailers across the country. Its sales are expected to exceed $120 million this year.

Mecca is the majority stockholder (see page 28) as well as chief executive officer. When Micro D went public last year, her holdings, according to one estimate, were worth $59 million.

But when you ask her whether money is what drives her, she replies:

"No. It's a great scorecard. The bottom line tells you yes, it was a success, or no, it wasn't. But money is not a main motivator."

What pushed her, she says, was the simple desire to be in business for herself: "I had worked for a number of other people and didn't feel that I was always appreciated or got to do many of the things I thought I was capable of doing."

Her attitude would not surprise many of the consultants and management experts who have been watching entrepreneurs to find out what makes them tick.

Entrepreneurs may tell you they are after money or power, because those things are easy for others to understand, says Andrew S. Grove, author of *High Output Management* and president of Intel Corporation in Santa Clara, Calif. But he believes the real force that drives entrepreneurs is the need to prove themselves right.

The critical characteristic of an entrepreneur, says Grove, is the ability to

Can you lead others?

- ☐ I can get most people to go along when I start something.
- ☐ I can give the orders if someone tells me what we should do.
- ☐ I let someone else get things moving. Then I go along if I feel like it.

Can you take responsibility?

- ☐ I like to take charge of things and see them through.
- ☐ I'll take over if I have to, but I'd rather let someone else be responsible.
- ☐ There's always some eager beaver around wanting to show how smart he is. I say let him.

How good an organizer are you?

- ☐ I like to have a plan before I start. I'm usually the one to get things lined up when the group wants to do something.
- ☐ I do all right unless things get too confused. Then I quit.
- ☐ You get all set and then something comes along and presents too many problems. So I just take things as they come.

How good a worker are you?

- ☐ I can keep going as long as I need to. I don't mind working hard for something I want.
- ☐ I'll work hard for a while, but when I've had enough,that's it.
- ☐ I can't see that hard work gets you anywhere.

Can you make decisions?

- ☐ I can make up my mind in a hurry if I have to. It usually turns out O.K., too.
- ☐ I can if I have plenty of time. If I have to make up my mind fast, I think later I should have decided the other way.
- ☐ I don't like to be the one who has to decide things.

Can people trust what you say?

- ☐ You bet they can. I don't say things I don't mean.
- ☐ I try to be on the level most of the time, but sometimes I just say what's easiest.
- ☐ Why bother if the other fellow doesn't know the difference?

Can you stick with it?

- ☐ If I make up my mind to do something, I don't let anything stop me.
- ☐ I usually finish what I start—if it goes well.
- ☐ If it doesn't go right away, I quit. Why beat your brains out?

How good is your health?

- ☐ I never run down!
- ☐ I have enough energy for most things I want to do.
- ☐ I run out of energy sooner than most of my friends seem to.

Now count the checks you made.

How many checks are there beside the first answer to each question? _____

How many checks are there beside the second answer to each question? _____

How many checks are there beside the third answer to each question? _____

If most of your checks are beside the first answers, you probably have what it takes to run a business. If not, you're likely to have more trouble than you can handle by yourself. Better find a partner who is strong on the points you're weak on. If many checks are beside the third answer, not even a good partner will be able to shore you up.

Now go back and answer the first question.

Worksheet No. 2

Estimated Monthly Expenses

Item	Your estimate of monthly expenses based on sales of $ _____ per year Column 1	Your estimate of how much cash you need to start your business (See column 3.) Column 2	What to put in column 2 (These figures are typical for one kind of business. You will have to decide how many months to allow for in your business.) Column 3
Salary of owner-manager	$	$	2 times column 1
All other salaries and wages			3 times column 1
Rent			3 times column 1
Advertising			3 times column 1
Delivery expense			3 times column 1
Supplies			3 times column 1
Telephone and telegraph			3 times column 1
Other utilities			3 times column 1
Insurance			Payment required by insurance company
Taxes, including Social Security			4 times column 1
Interest			3 times column 1
Maintenance			3 times column 1
Legal and other professional fees			3 times column 1
Miscellaneous			3 times column 1
Starting Costs You Have to Pay Only Once			Leave column 2 blank
Fixtures and equipment			Fill in worksheet 3 and put the total here
Decorating and remodeling			Talk it over with a contractor
Installation of fixtures and equipment			Talk to suppliers from who you buy these
Starting inventory			Suppliers will probably help you estimate this
Deposits with public utilities			Find out from utilities companies
Legal and other professional fees			Lawyer, accountant, and so on
Licenses and permits			Find out from city offices what you have to have
Advertising and promotion for opening			Estimate what you'll use
Accounts receivable			What you need to buy more stock until credit customers pay
Cash			For unexpected expenses or losses, special purchases, etc.
Other			Make a separate list and enter total
Total Estimated Cash You Need To Start		$	Add up all the numbers in column 2

Getting Started

Your building

Have you found a good building for your store? _____
Will you have enough room when your business gets bigger? _____
Can you fix the building the way you want it without spending too much money? _____
Can people get to it easily from parking spaces, bus stops, or their homes? _____
Have you had a lawyer check the lease and zoning? _____

Equipment and supplies

Do you know just what equipment and supplies you need and how much they will cost? (Worksheet 3 and the lists you made for it should show this.) _____
Can you save some money by buying second-hand equipment? _____

Your merchandise

Have you decided what things you will sell? _____
Do you know how much or how many of each you will buy to open your store with? _____
Have you found suppliers who will sell you what you need at a good price? _____
Have you compared the prices and credit terms of different suppliers? _____

Your records

Have you planned a system of records that will keep track of your income and expenses, what you owe other people, and what other people owe you? _____
Have you worked out a way to keep track of your inventory so that you will always have enough on hand for your customers but not more than you can sell? _____
Have you figured out how to keep your payroll records and take care of tax reports and payments? _____
Do you know what financial statements you should prepare? _____
Do you know an accountant who will help you with your records and financial statements? _____

Your store and the law

Do you know what licenses and permits you need? _____
Do you know what business laws you have to obey? _____
Do you know a lawyer you can go to for advice and for help with legal papers? _____

Protecting your store

Have you made plans for protecting your store against thefts of all kinds—shoplifting, robbery, burglary, employee stealing? _____
Have you talked with an insurance agent about what kinds of insurance you need? _____

Buying a business someone else has started

Have you made a list of what you like and don't like about buying a business someone else has started? _____
Are you sure you know the real reason why the owner wants to sell this business? _____
Have you compared the cost of buying the business with the cost of starting a new business? _____
Is the stock up to date and in good condition? _____
Is the building in good condition? _____
Will the owner of the building transfer the lease to you? _____
Have you talked with other business owners in the area to see what they think of the business? _____
Have you talked with the company's suppliers? _____
Have you talked with a lawyer about it? _____

Making It Go

Advertising

Have you decided how you will advertise? (Newspapers—posters—handbills—radio—mail?) _____
Do you know where to get help with your ads? _____
Have you watched what other stores do to get people to buy? _____

The prices you charge

Do you know how to figure what you should charge for each item you sell? _____
Do you know what other stores like yours charge? _____

Buying

Do you have a plan for finding out what your customers want? _____
Will your plan for keeping track of your inventory tell you when it is time to order more and how much to order? _____
Do you plan to buy most of your stock from a few suppliers rather than a little from many, so that those you buy from will want to help you succeed? _____

Selling

Have you decided whether you will have salesclerks or self-service? _____
Do you know how to get customers to buy? _____
Have you thought about why you like to buy from some salesclerks while others turn you off? _____

Your employees

If you need to hire someone to help you, do you know where to look? _____
Do you know what kind of person you need? _____
Do you have a plan for training your employees? _____

Credit for your customers

Have you decided whether or not to let your customers buy on credit? _____
Do you know the good and bad points about joining a credit-card plan? _____
Can you tell a deadbeat from a good credit customer? _____

A Few Extra Questions

Have you figured out whether or not you could make more money working for someone else? _____
Does your family go along with your plan to start a business of your own? _____
Do you know where to find out about new ideas and new products? _____
Do you have a work plan for yourself and your employees? _____
Have you gone to the nearest Small Business Administration office for help with your plans? _____

If you have answered all these questions carefully, you've done some hard work and serious thinking. That's good. But you have probably found some things you still need to know more about or do something about.

Do all you can for yourself, but don't hesitate to ask for help from people who can tell you what you need to know. Remember, running a business takes guts! You've got to be able to decide what you need and then go after it.

Good luck!

Worksheet No. 3

List of Furniture, Fixtures and Equipment

Leave out or add items to suit your business. Use separate sheets to list exactly what you need for each of the items below.	If you plan to pay cash in full, enter the full amount below and in the last column.	If you are going to pay by installments, fill out the columns below. Enter in the last column your downpayment plus at least one installment.			Estimate of the cash you need for furniture, fixtures and equipment
		Price	Downpayment	Amount of each installment	
Counters	$	$	$	$	$
Storage shelves, cabinets					
Display stands, shelves, tables					
Cash register					
Safe					
Window display fixtures					
Special lighting					
Outside sign					
Delivery equipment if needed					
Total Furniture, Fixtures, and Equipment (Enter this figure also in worksheet 2 under "Starting Cost You Have To Pay Only Once.")					$

INGREDIENTS FOR AN IDEAL START-UP BUSINESS PLAN

Name of Business _____

I. SELF-ASSESSMENT AND BUSINESS CHOICE

1. Evaluate your strengths and weaknesses.
2. Write a commitment paragraph. Why should or shouldn't you be in business for yourself?
3. Choose a business that best fits your strengths and desires. What business are you in? What will make it unique? What will your product or service do for your customers? How can you capitalize on the weakness of your competitors?

II. MARKETING PLAN

1. Analyze your customers from their points of view.
2. Research your market size and location.
3. Quantify the total market (national, regional, or local) by dollars spent, units used, number of people, or percentage of income.
4. Analyze your competition.
5. Quantify your potential market share (sales potential).
6. Develop your market strategy. How will you reach your customers? (6 P's: people, product, place, price, promotion, and plan.)

III. ORGANIZATIONAL DETAILS PLAN (ADMINISTRATIVE MANAGEMENT)

1. List your short and long-term objectives/goals for your business.
2. Choose the form of business (sole proprietorship, partnership, corporation).
3. Describe your personnel plan, organizational chart, and policies.
4. List jobs you cannot do, or do not want to do.
5. Layout report/control systems needed.
6. Outline recordkeeping system.
7. Describe insurance plan.
8. Review risks and project plan to cope with them.

IV. FINANCIAL PLAN

1. Determine the profit, return on investment (ROI), and salary you need/want.
2. Prepare statements of assets/funds required to get started.
3. Project monthly Profit and Loss Statement (SBA Form 1099) for one to two years, or longer.
4. Project monthly cash flow (SBA Form 1100) for one year.
5. Estimate break-even sales based on identification of fixed and variable expenses.
6. Develop a financing plan. How will you raise money when needed?
7. Prepare an Opening Day Balance Sheet.

FRANCHISING -- WHAT IS YOUR MOTIVE?

Which of these statements feels right to you?

___ I am unhappy working for X corporation. I dislike the structure. I need to be totally on my own. I need to be free to create new concepts and test them out. I want to manage a system so I will have more time to pursue my other interests. I have never had a boss who could get along with me. This is the opportunity I have been waiting for.

___ I don't want to get rich, but I like the idea of managing my own time on a day to day basis. I know business success is a lot of hard work, but I am willing to give it a try knowing that there are risks involved.

___ I am really excited about this franchise idea. I can see it is on the cutting edge and will make me a lot of money. The franchisor really has his act together. I can see by his luxury car and beautiful office that this place is on the move. I need to act quickly before someone else grabs this chance. I am lucky my banker is willing to lend me the money based on the equity of my house. This is a once in a lifetime opportunity and I'm not going to miss it!

___ I need to slow this process down and research it carefully. I am putting all of my financial resources on the line. I know there is no such thing as an easy buck. In the long run, business success comes from hard work and a lot of small decisions. I know there are no guarantees, but I'll research this, discuss it with my family, and then decide.

___ What really excites me about this opportunity is that there's nothing else like this in the area. By being the first in the region I'll be able to capture the market. This is a chance for me to finally make some real money and pay off my debts.

HOW TO GO INTO BUSINESS

	Advantage	Disadvantage
CREATE A BUSINESS		
BUY AN EXISTING BUSINESS		
BECOME A FRANCHISEE		

lot less than it would have to spend to open its own outlets. The company can profit on equipment, services and supplies it offers its franchisees.

Making the deal even sweeter for the franchisor is the fact that you and your fellow franchisees have a substantial financial stake in the business (maybe your life's savings) and will be highly motivated to succeed, thus assuring the franchisor's success as well.

A "basic tension"

All that can be a fair enough deal if both franchisor and franchisee prosper. Yet it doesn't always work out that way.

At a seminar on franchising sponsored by the University of Southern California College of Continuing Education, Joe Coyne, a California lawyer who specializes in antitrust law, explained, "The basic tension between franchisor and franchisee is that the franchisor usually wants a lot of control to protect what he has built up and the franchisee wants to be an independent businessperson."

The people who start franchise systems usually are very protective of their business scheme. They've built it from scratch to the point where it could become a regionally or nationally known enterprise. To them, franchisees are fortunate to be able to get in on this golden opportunity.

The franchisor pays the enormous costs of organizing the system and selling franchises—developing a marketing plan and making demographic studies, architectural proposals, location reports, sample operating budgets and other materials designed to convince people to invest in a franchise. And once the system is under way, there is the job of overseeing great numbers of outlets and their operators and maintaining uniform product and service quality.

The franchisor worries about legal risks, such as problems caused by the overzealous selling of franchises, liability for products and services sold, and lawsuits by aggrieved franchisees. And the franchisor frets about government regulations—information disclosure requirements and federal antitrust laws that, says Coyne, "can make it ever more complex for even a simple business scheme to work."

Worries for the franchisee

As a franchise operator, you'll have major costs you wouldn't have as an independent—from royalties to financing a building designed to the franchisor's exacting specifications.

Franchisees often chafe under the burden of those costs. "A basic problem is that the royalties the franchisor exacts are often about what the normal profit margin is for a franchisee, except perhaps in the fast-food business," says Alexander Hammond, a New York lawyer who specializes in franchise law.

The supervision and financial reporting requirements you'll be subject to are often time-consuming and troublesome. At least in the early years of your franchise business you may spend so much time at the shop that you'll forget what home looks like. One critic of franchising remarked that franchises provide a chance for husband, wife and teenage children to work long hours for the minimum wage. Says Hammond, "If all a franchisee really wants out of the deal is a job, it will provide that."

Owners of franchise systems are protective of their business. To them, franchisees are lucky to have the opportunity.

You won't own the goodwill attached to your business; if you gave up your franchise and opened an independent store, the franchisor's name and goodwill wouldn't continue to generate business for you.

Even the best franchise systems can't guarantee success. Despite rosy market studies showing strong consumer demand for the product or service, competition from similar businesses or changing consumer tastes could leave you without enough customers. Your well-scouted location might turn out to be a poor one. You might not be up to the bookkeeping, purchasing, pricing, inventory turnover, planning, and hiring and directing of employees.

The franchisor's business sense will play a major role in whether you succeed. If the franchisor misreads economic trends or doesn't provide you with the promised training and other management support, or simply mismanages the business, the entire franchise system could fail—through no fault of yours.

There is yet another hazard you face as a franchisee: being taken to the cleaners by an unscrupulous franchisor. These abuses have been inflicted on unwary franchisees:

- A franchisor sold to franchisees at new equipment prices what turned out to be used equipment.
- A franchisor distributed discount coupons that franchisees were bound to honor. The size of the discount eliminated the franchisees' profit margin on the service, yet the franchisees had to pay royalties on increased gross sales figures that included the value of the coupons.
- A franchise company regularly diverted part of its franchisees' advertising fees into its own general operating funds.
- A franchisor took kickbacks from firms it "approved" to sell supplies to its franchisees—at overblown prices.

"Such companies may not have gone into business with the intent of fleecing their franchisees," says William H. Manger, a former Securities and Exchange Commission lawyer and now president of Franchise Solutions, a consulting firm, "but many discover after they've been at it awhile that there are all sorts of possibilities for exploiting the franchisees and thereby greatly multiplying their own gain. They are motivated by plain, old-fashioned greed. These are the rogue elephants of franchising."

Manger estimates that perhaps 5% to 10% of franchisors are of that ilk.

How to avoid the pitfalls

Los Angeles lawyer T. William Opdyke, a specialist in franchise and tax law, says, "The best franchise deals are those in which both the franchisee and the franchisor make plenty of money. They work as a team. That word gets around, attracts new franchisees and everybody benefits."

Obviously, that's the kind of team

The Midas touch

Here's a look at Midas Muffler through the eyes of its president, a franchisee and the lawyer who runs the franchisees' association. Created 28 years ago, Midas has over 1,300 shops in the U.S.; most of them are franchised. The going price is about $142,000.

The franchisor. Midas President Ron Moore says the company checks out prospective franchisees as carefully as they should check out the company: "We require a financial statement from them. We require references. We look for a match between the person's capabilities and finances and a particular franchise."

All new franchisees attend orientation at company headquarters, "a grueling two-day affair," says Moore. "We walk them through the offering circular. We don't want any failures in the system. It is easier to deal with successes."

Midas keeps in touch with its franchisees through a field force of division and district managers and real estate, marketing, advertising and sales promotion executives. Moore says he is in contact with probably 20 franchisees a week. "When we develop new programs, we run the idea by our dealers first. They have to believe in and support a new program for it to work," he says.

Midas franchisees have their own dealer association. "The company cooperates with it," says Moore. "It performs an ombudsman's role. A franchisee would often rather discuss a problem with his peers than with headquarters."

Clark: Sales doubled with the Midas sign.

The franchisee. Tom Clark of Port Huron, Mich., went into business for himself in 1970, opening an independent muffler shop. In 1976, after being approached by another franchise company that wanted him to take over one of its company-owned shops, he decided to investigate the idea of becoming a franchisee. He settled on Midas. Now he has four shops, all within 50 miles of his first outlet.

Clark didn't jump into franchising without some trepidation. "You feel like you will lose your total independence," he says, "but that didn't really happen. The company improves your business in so many ways. The minute we put the Midas sign out, we saw an increase in traffic. By the end of my first year with Midas, my sales had doubled."

Clark says Midas encourages its franchisees to expand. It produces market studies to show the potential for expansion and gives existing dealers in the area first crack at buying a new franchise.

Is a franchise a surefire way to succeed? "You have to make sacrifices to be successful," says Clark. "You never really know how successful a location is going to be. A guy can put in 60 or 70 hours a week and still get little more out of it than what amounts to the minimum wage. But you can become wealthy."

The franchisee's association. Lawyer Myron Gordon is the full-time executive director of the National Midas Dealers Association, an organization supported and controlled by Midas franchisees. Gordon says Midas executives are very responsive to the concerns of the association and involve it in company planning. "We meet on a regular basis to discuss strategy on local advertising, future marketing strategies and the like," he says.

The association also helps solve problems of individual franchisees. For instance, if the company plans action that some franchisees complain would harm their businesses, the association assigns other franchisees to investigate. If the investigators feel the complaint is justified, that will carry weight with the company. If they feel it is not, the complaining franchisees "will accept from fellow franchisees what they might not accept from the franchisor," says Gordon.

you want to get on. Identifying healthy franchise systems is possible—if you spend the time, effort and money necessary to track down the reputable and least risky deals. The Federal Trade Commission requires franchisors to provide prospective franchisees with accurate information about their operations in a uniform disclosure document. Ask for it when you investigate a franchise.

Sadly, many would-be franchisees plunge in without doing their homework first. Hammond thinks many are blinded by the "mystique of franchising," believing that this system of business is somehow a magic way to succeed. That, coupled with "the driving force in America to be independent, to be in business for yourself, drives people to abandon caution," he says. "People will pay anything for a franchise. Indeed, if the cost of a franchise were too modest, they wouldn't go for it."

"Unscrupulous franchisors prey upon those kinds of people," says Manger.

Before you begin to investigate any franchise deals, satisfy yourself that you are cut out to operate a business. You'll have to work long hours and do any job that needs to be done, from mopping floors to balancing the books. How you deal with people—employees, customers and suppliers—is critical. You should have the temperament for taking risks. Louis M. Mucci, a CPA and partner in the Los Angeles office of Coopers & Lybrand, says two problems many franchisees encounter are that "they don't understand even the basics of business law and regulations. And they're weak on bookkeeping. Many of them feel the franchisor is going to do it for them—even to the point of their income tax returns."

You can learn more about what's involved in running a business—and how to prepare yourself for it—in seminars and courses at schools and colleges in your community. See the box on page 74 for other sources of information.

Take into account your knowledge and interest in the products or services you'll be selling in a particular franchise business. If you don't know

the first thing about cars, are you likely to do well in an auto repair franchise? People usually start businesses based on something they know how to do well. In this sense franchise and independent businesses are alike. It helps to have worked as an employee of a franchised outlet to learn what the business is like before deciding to buy a franchise.

Beware of business opportunities that promise spectacular returns on your investment with little or no risk or effort. Late last year a Florida-based company that sold distributorships in a business selling car tune-up parts to service stations and repair shops was accused by the FTC of bilking its investors. The FTC charged that the firm violated several requirements of the agency's Franchise Rule, falsely promised in newspaper ads that distributors could earn $150,000 a year working full-time and $50,000 a year part-time from a $14,000 investment in inventory, and claimed the investment was risk-free because the company would reimburse unsuccessful distributors. According to the FTC, many distributors lost their investments because the company refused to make the promised reimbursements. The FTC also charged that the company paid some distributors to misrepresent their success to prospective distributors and listed as successful distributors persons who had never bought distributorships.

Never sign your name to a franchise document or put any money down before having your accountant and lawyer go over the deal with you, line by line. After all, franchisors pay accountants and lawyers with expertise in franchising to put their deals together. You will be at a serious disadvantage if you don't have the same kind of help in analyzing the documents and assessing your prospects under their terms. Philip Nadeau, sales representative for Great Earth International, a franchisor of vitamin shops and sales plans, says, "It is surprising that prospective franchisees are ready to invest $200,000 in a franchise deal but attempt to save $150 by not consulting a lawyer or accountant for help."

If you don't pay for expert advice early on, you could end up spending a lot more for such help later, and then it might be too late to save your investment from going down the drain. "When they finally consult their attorneys," says Hammond, "many franchisees learn that they have been living in a fool's paradise and have no way to save themselves. Underlying a lot of that is the perception that franchisees will be protected by law, and that isn't necessarily so."

Hammond recommends that franchisees maintain an "anticoercion and antitermination file"—in short, notes, copies of letters and other documents, and detailed records of all contact between them and their franchisor—as their best defense against potential problems, including losing their opportunity to achieve the level of success they had hoped for in franchising.

Finally, when you study the brochures and disclosure documents of franchise companies, apply this test to each deal: Figure out whether the projected return on your investment will be more profitable than what you could earn on the same amount of money invested in a less risky medium. Says Mucci, "The pro forma statement of the franchise company should show the business can be successful and bring the franchisee a greater return on investment than a certificate of deposit, for instance. Otherwise, why should anyone enter into such a deal?"

And Opdyke warns, "If you have to mortgage everything you own, including your home and cars, to buy a franchise, you probably shouldn't take that risk." □

FOR MORE INFORMATION

You can avoid franchise pitfalls by learning more about the business before you consider specific deals. Consult the following sources, most of which are available at public libraries.

Franchise Opportunities Handbook, U.S. Department of Commerce (Stock Number 003-008-00191-2 from Superintendent of Documents, Washington, D.C. 20402; $7 paperback). Basically a listing of the offerings of more than 1,100 franchise companies, with details about how they operate, the dollar investment required, the firm's business history, financial and training assistance provided, plus lists of government agencies that can give you information and assistance.

Franchisee Rights—A Self-Defense Manual for Dealers, Distributors, Wholesalers and Other Franchisees, Alexander Hammond (Franchise Publications, 1185 Avenue of the Americas, New York, N.Y. 10036; $29.95 hardcover). Spells out in layman's language the legal points that are often the subject of dispute between franchisees and their franchisors, from attempts to control pricing to renewal and termination of contracts and the granting of exclusive territorial rights.

Franchising in the Economy, 1982–84, U.S. Department of Commerce (Stock Number 003-008-00192-1 from Superintendent of Documents; $2.50 paperback). A compilation of franchising industry financial figures, market statistics, and economic trends and forecasts from Commerce's annual survey.

How to Run a Small Business, J.K. Lasser Tax Institute (McGraw-Hill; $17.95 hardcover). A primer on business operations, including advice on accounting, record keeping, tax management, selling, personnel management and the special problems of franchises.

International Franchise Association Directory of Membership, including "Investigate Before Investing," a guide to checking out franchise deals (IFA, Suite 707, 1025 Connecticut Ave., N.W., Washington, D.C. 20036; $3.95 paperback; or order the guide separately for $3.00). Contains information about the history, operations and investment required for franchises of each of 381 IFA member companies.

Starting and Managing a Small Business of Your Own, U.S. Small Business Administration (Stock Number 045-000-00212-8 from Superintendent of Documents; $4.75 paperback). The SBA's basic how-to manual on business operations, including a chapter on franchises.

Lorraine Mecca's microcomputer distribution firm had so much potential that husband Geza Csige gave up his own business to join her.

see something that is not there yet. He explains: "It's like an artist. He can envision a statue or a painting by staring at nothing. In the same sense, a person who creates a business or product does so by looking at a blank canvas." If the individual trusts that vision enough, Grove says, he pushes on to convince himself and the rest of the world that "the mirage or image that he sees is really for real."

Venture capitalist David A. Silver of Santa Fe, N.M., also likens entrepreneurs to artists, saying they have "quite a bit in common, not the least of which is the desire to do some one thing extremely well."

But is money really not important? Charlotte Taylor, a Washington, D.C., management consultant who specializes in business start-ups, says the would-be entrepreneur should be able to say yes to this question: "If I had a choice of earning twice as much working for someone else, would I still rather be my own boss?"

Drawing up profiles of successful entrepreneurs is a popular—though slippery—pastime among people who study them. In his book *The Entrepreneurial Life*, Silver describes the entrepreneur as "someone dissatisfied with his or her career path (though not with his chosen field) who decides to make a mark on the world by developing and selling a product or service that will make life easier for a large number of people."

SILVER, WHO is also a consultant on entrepreneurship to the University of Chicago Graduate School of Business, says entrepreneurs tend to be energetic, single-minded, confident, optimistic and determined. An entrepreneur, he continues, is typically a male aged 27 to 34 whose father died early or was absent from family life and whose mother was very ambitious for him.

The most successful entrepreneurs, Silver found, have been goaded by physical characteristics that set them apart from their fellows in childhood:

They were shorter than average, perhaps, or sidelined by an illness that limited participation in sports and social life, or even suffered from a bad case of acne.

Entrepreneurs, of course, have their own ideas about what it takes. Samuel Salter II, who at 19 has been named 1984 Young Entrepreneur of the Year by the U.S. Small Business Administration, sees entrepreneurs as people who "take more responsibility for the action in their lives" than most other people. "You get the credit, you take the fault," says Salter, president of Continational Financial Corporation, of East Orange, N.J., which brokers more than $1 million a month in loans to small businesses.

People are exploring ways to change the world, says Robert L. Schwartz of the School for Entrepreneurs.

Lorraine Mecca says that starting and running a business call for a great deal of discipline. "You can't just do it for a little while and say, 'I'm tired.' You have to be able to make yourself keep doing it. It's really an endurance race." The excitement and fun of it keep her going, she says.

Entrepreneurs are often described as vulnerable to divorce because they are so single-minded about their businesses that they neglect spouses and children. Mecca, whose husband, Geza Csige, joined Micro D after she started it, emphasizes that it is advisable to have your personal life in order.

"You do not have time to exert any mental effort in any direction other than your business," she says. "So if you are trying to build an emotional relationship, you can't do it. One or the other has to fail—either your relationship or the business."

With a laugh, she adds: "You have to be happy with either fidelity or celibacy."

If you want to be an entrepreneur but do not fit Silver's or any other profile (including the one that is the basis of the quiz accompanying this article), do not despair. Howard H. Stevenson, a professor of business administration at Harvard Business School, says that the entrepreneurial impulse is found in all types of people. In classes on entrepreneurial management that he teaches, Stevenson tries to dispel any lingering stereotypes. "Eventually," he says, "the students come to understand that entrepreneurship is not confined to 32-year-old males with engineering degrees."

Gustaf Delin, one of the founders of the ForeSight Institute, a Washington-based venture that helps companies develop in-house entrepreneurs, agrees that there is no "right" list of characteristics. But he observes that one important constant is overlooked: "Every entrepreneur is self-selected. Nobody appoints you."

How do people become entrepreneurs? Each story is unique.

Sam Salter never doubted that he would be in business. He says: "Certain kids want to be firemen; some kids want to be cops. I watched TV, and I wanted to be J.R."

He has used visualization techniques not unlike those used by some athletes. In his mind, he explains, he created "the business meetings, the lunches,

Publisher of a natural foods trade journal, Doug Greene emphasizes the importance of a larger world view.

the house, the cars" that he expected to be part of his life. Visualization is more concrete than daydreams, he says. He firmly believes that "whatever my mind can create, I can become."

THOSE WITH less confidence take still other routes. A determined Pennsylvanian left a corporate job and spent six months in an intensive self-evaluation program to prepare himself for the risks he knew he would take to start the health care consulting business he dreamed of.

He enlisted his wife's support. She was already working, but she had never seen herself as the family breadwinner, and she had to press herself to earn a better income.

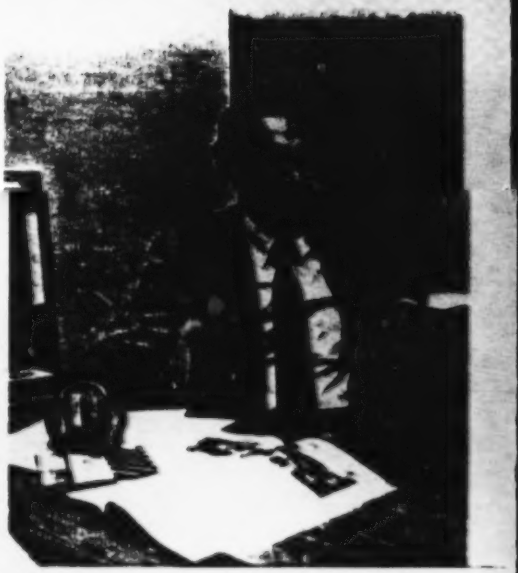
To buttress his commitment, he set up an advisory board of 20 persons—some were professionals like accountants and attorneys, and others were just friends.

"I consciously closed off all the pathways for escaping when things got tough," he says. And get tough they did. The car was repossessed. The family was evicted from a rented home. But in its fourth year, the business is really beginning to take off.

For would-be entrepreneurs who need the confidence and business skills that training can provide, these are good times. There are probably more formal and informal education opportunities for entrepreneurs than ever before.

One unconventional approach is offered at the School for Entrepreneurs, run by Robert L. Schwartz in Tarrytown, N.Y. Cornell University has identified Schwartz as the "granddaddy of the conference center concept."

A veteran journalist who had worked for *Time* and *Life*, Schwartz in 1963 bought the 26-acre Mary Duke Biddle estate overlooking the Hudson River and turned it into the Tarrytown House Executive Conference Center, the first such center to be run on a for-profit basis. The facility attracts meetings of executives from corporations like International Business Machines and CBS.



Schwartz spent some time in California in the early 1970s looking at the "human potential" centers. The press, he says, saw in the centers throngs of people "out for a hedonistic experience in the hot tubs," but he saw latent en-

Measuring the Ingredients Of the Successful Entrepreneur

Do you have what it takes to be a successful entrepreneur?

One way to find out is to take this quiz and see how your score stacks up against 1,500 entrepreneurs surveyed by the Center for Entrepreneurial Management. All are now running businesses that they started.

What if you do not score well? "It only means you don't match the profile," cautions Joseph R. Mancuso, CEM president.

Circle the appropriate answer.

1. How were your parents employed?
a. Both were self-employed most of their working lives.
b. Both were self-employed for some part of their working lives.
c. One parent was self-employed for most of his or her working life.
d. One parent was self-employed at some point in his or her working life.
e. Neither parent was ever self-employed.

2. Have you ever been fired from a job?
a. Yes, more than once.
b. Yes, once.
c. No.

3. What is your family background?
a. You were born outside the United States.
b. One or both parents were born outside the United States.
c. At least one grandparent was born outside the United States.
d. Your grandparents, parents and you were born in the United States.

4. Describe your work career.
a. Primarily in small business (under 100 employes).
b. Primarily in medium-sized business (100 to 500 employes).
c. Primarily in big business (over 500 employes).

5. Did you operate any businesses before you were 20?
a. Many.
b. A few.
c. None.

6. What is your age?
a. 21 to 30.
b. 31 to 40.
c. 41 to 50.
d. 51 or over.

7. Where do you stand in your family?
a. First child.
b. Middle.
c. Youngest.
d. Other (foster, adopted).

8. What is your marital status?
a. Married.
b. Divorced.
c. Single.

9. What level of formal education have you reached?
a. Some high school.
b. High school diploma.
c. Bachelor's degree.
d. Master's degree.
e. Doctorate.

10. What is your primary motivation in starting a business?
a. To make money.
b. You don't like working for someone else.
c. To be famous.
d. As an outlet for excess energy.

11. Describe your relationship to the parent who provided most of the family's income.
a. Strained.
b. Comfortable.
c. Competitive.
d. Nonexistent.

12. How would you choose between working hard and working smart?
a. Work hard.
b. Work smart.
c. Both.

13. On whom do you rely for critical management advice?
a. Internal management teams.
b. External management professionals.
c. External financial professionals.
d. No one except yourself.

14. If you were at the racetrack, which would you bet on?
a. The daily double—a chance to make a killing.

Arizona State University nurtures new business with the help of entrepreneur A. LeRoy Ellison (left), conferring here with Roger Sprava of Interactive Marketing Software, Inc., a Phoenix firm.

trepreneurs, people with creativity and energy who marched to a new drumbeat. Turned off by the notion that entrepreneurs were hustlers and promoters, they shunned the business world. "But in fact," says Schwartz, "they had within them the seeds of a whole new vision that has marketplace meaning."

To help such latent entrepreneurs overcome their reluctance to get into business, Schwartz launched his school at the Tarrytown Center in 1977. Since then it has attracted some 1,000 students, who have spent two weekends exploring whether they can turn themselves into entrepreneurs or expand endeavors they have already started.

"Many of these people are exploring new ways to change the world and themselves," says Schwartz. "It's a time for a new kind of society and a new kind of human, and they're very interested in that sort of thing."

Eighteen people attended the most recent session. Among them were a woman who had tried teaching and the corporate life and found that neither put her creative energies to work; a Canadian who hoped to start a small publishing company; a consultant from Norway who wanted to learn techniques for training entrepreneurs; and an architect who needed help in expanding a successful nonprofit project into a nationwide profitmaking business.

The participants went through four days of psychological games, lectures, group discussions and written exercises. Each prepared a tentative business plan, discussed it in a small group, revised the plan and did a trial run before the whole group. Then the plan was revised again and presented to a real-life venture capitalist brought in to provide practice in making a pitch for funds.

ENTREPRENEURS often feel like misfits, says Schwartz, who frequently refers to them as "the poets and packagers of new ideas." What the course should tell them, he says, is that "you may be an outsider, a special breed of cat, but there's a socially useful, personally useful pattern to that—

b. A 10-to-1 shot.
c. A 3-to-1 shot.
d. The 2-to-1 favorite.

15. Name the one ingredient that you consider both necessary and sufficient for starting a business.
a. Money.
b. Customers.
c. An idea or product.
d. Motivation and hard work.

16. If you were an advanced tennis player and had a chance to play a top pro like Jimmy Connors, what would you do?
a. Turn it down because he could easily beat you.
b. Accept the challenge but not bet any money on it.
c. Bet a week's pay that you would win.
d. Get odds, bet a fortune and try for an upset.

17. With which do you tend to "fall in love" too quickly?
a. New product ideas.
b. New employes.
c. New manufacturing ideas.
d. New financial plans.
e. All of the above.

18. Which of the following personality types is best suited to be your right-hand person?
a. Bright and energetic.
b. Bright and lazy.
c. Dumb and energetic.

19. Why do you accomplish tasks better?
a. You are always on time.
b. You are superorganized.
c. You keep good records.

20. Which do you hate to discuss?
a. Problems involving employes.
b. Signing expense accounts.
c. New management practices.
d. The future of the business.

21. Which would you prefer?
a. Rolling dice with a 1-in-3 chance of winning.
b. Working on a problem with a 1-in-3 chance of solving it in a set time.

22. If you could choose, which of the following competitive professions would you follow?
a. Professional golf.
b. Sales.
c. Personnel counseling.
d. Teaching.

23. Would you rather work with a partner who is a close friend or work with a stranger who is an expert in your field?
a. The close friend.
b. The expert.

24. When do you enjoy being with people?
a. When you have something meaningful to do.
b. When you can do something new and different.
c. Even when you have nothing planned.

25. Do you agree with the following statement?
In business situations that demand action, clarifying who is in charge will help produce results.
a. Agree.
b. Agree with reservations.
c. Disagree.

26. In playing competitive games, what most concerns you?
a. How well you play.
b. Winning or losing.
c. Both.
d. Neither.

Scoring

To determine your entrepreneurial profile, find the score for each of your answers on the following chart. Add them up for your total score.

1.	a=10	b=5	c=5	d=2	e=0
2.	a=10	b=7	c=0		
3.	a=5	b=4	c=3	d=0	
4.	a=10	b=5	c=0		
5.	a=10	b=7	c=0		
6.	a=8	b=10	c=5	d=2	
7.	a=15	b=2	c=0	d=0	
8.	a=10	b=2	c=2		
9.	a=2	b=3	c=10	d=8	e=4
10.	a=0	b=15	c=0	d=0	
11.	a=10	b=5	c=10	d=5	
12.	a=0	b=5	c=10		
13.	a=0	b=10	c=0	d=5	
14.	a=0	b=2	c=10	d=3	
15.	a=0	b=10	c=0	d=0	
16.	a=0	b=10	c=3	d=0	
17.	a=5	b=5	c=5	d=5	e=15
18.	a=2	b=10	c=0		
19.	a=5	b=15	c=5		
20.	a=8	b=10	c=0	d=0	
21.	a=0	b=15			
22.	a=3	b=10	c=0	d=0	
23.	a=0	b=10			
24.	a=3	b=3	c=10		
25.	a=10	b=2	c=0		
26.	a=8	b=10	c=15	d=0	

How does your score stack up? See page 26.

Your Entrepreneurial Profile

Total Score	
235–285	Successful Entrepreneur. Someone who starts multiple businesses successfully.
200–234	Entrepreneur. Starts one business successfully.
185–199	Latent Entrepreneur. Always wanted to start a business.
170–184	Potential Entrepreneur. Has the ability but has not started thinking about starting a business yet.
155–169	Borderline Entrepreneur. No qualifications but still in the running. Would need a lot of training to succeed.
Below 154	Hired Hand.

The average score for the entrepreneurs in the CEM survey is 239. CEM found that entrepreneurs often come from homes where one parent was self-employed for most of his or her working life. Many had been enterprising as youngsters—working a paper route, for example. Nearly 60 percent are the oldest child in the family and more than 75 percent are married. Fifty-six percent said they wanted to start a business primarily because they disliked working for others.

For an analysis of the answers to each question, send your name and address and 40 cents in coin or stamps with your request for "The Entrepreneur's Quiz" to the Center for Entrepreneurial Management, 83 Spring Street, New York, N.Y. 10012.

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the world needs nuts like you." Although he does not keep figures on how many participants start businesses, Schwartz says he knows, from visiting with hundreds who have come back for reunions, that the course is "a life-changing experience, mostly in the sense that they see themselves differently and now believe they can do anything they want to do."

One alumnus who affirms that Tarrytown changed his life, although he did not need the school to turn him into an entrepreneur, is Doug Greene. When he first heard about the school, he was already a successful entrepreneur several times over. In the late 1970s, Greene sold a thriving magazine advertising sales business in Malibu, Calif., to follow a hunch that the natural foods industry needed an upbeat, up-to-date trade magazine.

Today his company, New Hope Communications, in New Hope, Pa., which publishes the *Natural Foods Merchandiser*, has $2 million in annual sales. It sponsors a natural foods trade show that has grown to 550 exhibitors and 10,000 attendees in four years, and it recently opened a store, Carrots & Company, that serves as a laboratory for the firm.

Business people often tend to focus too narrowly, says Greene. "Bob Schwartz taught me the importance of understanding the world from a larger point of view, and that always translates into understanding your own business and yourself better."

UNIVERSITIES have taken up the banner, too. According to Karl H. Vesper of the University of Washington, 258 business and engineering schools now offer courses in starting a business—up 61 percent from 1980.

A. LeRoy Ellison, "entrepreneur in residence" at Arizona State University since January, says he is responsible not only for teaching but also for getting entrepreneurial content into the curriculum of ASU's business school and identifying ways the university can help nurture new businesses in the community. ASU now sponsors the New Venture Development Council, which provides an opportunity for heads of young companies to get to know and learn from one another.

Consultant Charlotte Taylor has developed a program called NET-PRO (New Enterprise Training for Profit) that is being used by banks, chambers of commerce and other institutions to help new entrepreneurs. One thing the program does is make them aware of business skills they must learn if they are going to succeed.

Still, there comes the moment of truth. Says Doug Greene: "You can read all the books about swimming, you can see films about it, you can sit on the bank and watch, but until you dive in that water, you won't know how to swim.

"That's what entrepreneurs do. They dive into the water, and they learn how to swim." □

Starting a Business: Where To Get Help

Do you want help in starting a business or deciding whether to become an entrepreneur? Here are some useful resources:

- School for Entrepreneurs, Tarrytown Conference Center, E. Sunnyside Lane, Tarrytown, N.Y. 10591, (914) 591-8300. Two-weekend course ($750). Next dates: July 13-15 and 20-22.
- Center for Entrepreneurial Management, 83 Spring Street, New York, N.Y. 10012, (212) 925-7304. Offers business planning seminars (one day, $125, and three days, $495) in eight cities.
- Small Business Development Centers, cosponsored by the U.S. Small Business Administration and universities in 31 states. Aimed at stimulating entrepreneurship. For the location nearest you, call the national SBDC office at (202) 653-6768.
- Venture Concepts, 1901 L Street, N.W., Washington, D.C. 20036, (202) 331-9265. Its NET-PRO Business Start-Up Kit (for New Enterprise Training for Profit) is a $75 package of five audio tapes, a 148-page workbook and an entrepreneurial self-test of 150 questions. Helps you determine whether you have what it takes to succeed, whether your business idea will work, and what skills you must learn to start a business.
- Women's Business Ownership Conferences, sponsored by SBA and the U.S. Department of Commerce. Meetings in 12 cities are scheduled from now to the end of the year. National coordinator: Susan Howard, SBA, 1441 L Street, N.W., Washington, D.C. 20416, (202) 653-2121.
- American Woman's Economic Development Corporation, The Lincoln Building, 60 E. 42nd Street, New York, N.Y. 10165, (212) 692-9100. Telephone counseling available across the country or face-to-face counseling in New York, both at $25 per session. Extended courses in New York on how to start, manage or build a business.

There's still big money to be made in a franchised business. But these days, getting into it also takes big money. And once you're in, you're really in.

No entrepreneurs need apply

By Thomas O'Donnell

You have a few bucks saved, want to get out of the rat race and run your own business. But you don't have a product or the skills to establish your own company. Are you doomed to collect your gold watch at age 65?

Maybe not, if you buy a franchise, a form of business bigger than ever in the U.S. Franchised operations now employ 5.2 million people and account for one of every three retail sales. Revenues through franchises will total $460 billion this year and are growing at a 10% annual rate. And franchising still is an arena where some people can get very rich very fast. "Since the 1950s more millionaires have been created this way than any other," says the Commerce Department's Andrew Kostecka.

But be careful. Buying a franchise is costlier and riskier than ever before. Franchisees are being squeezed on profits everywhere, from fast foods to glitzy new lines such as videogame and computer stores. Fraud, supposedly eliminated by tough legislation passed in the late 1970s, is still franchising's dirty little secret. And relations between franchisee and franchisor have been strained.

Running a franchised business means giving up your independence and playing by someone else's rules. If you're a successful executive used to power and perks, can you get up at 4 a.m. and bake doughnuts? Is your family willing to sacrifice prestige for profits?

If you can get over that hurdle, next comes finding the right franchisor. The International Franchise Association, a Washington, D.C.-based trade group, will provide a list of established companies and can also furnish some information about them.

Some questions to ask before you buy: What is the financial history and strength of the company? How many times has it been hauled into court for not living up to its word? How much of a cut will the franchisor take from your revenues? How much support will it give you, now and in the future? How tough is it to break the contract or sell your business? How saturated is the market? Most important, never do anything without interviewing both happy and unhappy franchisees. It's like any other investment: Look before you leap.

One piece of key information you probably won't get is precise profit projections. No law or regulatory agency requires them. "That will change very shortly," predicts Detroit

Franchise booster Kostecka of the Commerce Department
"More millionaires have been created this way than any other."

lawyer Richard Solomon. "Franchising will have to be run like a big business." But for now most franchisors are loath to predict profits, because it's a good way of getting sued later if they prove to be inaccurate. Yet if a franchise salesman jots something down on an envelope or a cocktail napkin, says Solomon, "that can make a tremendous piece of evidence in court. What could look more fly-by-night?"

What are the hot fields? Recently, they are videogame, software and home computer stores, while older fields like restaurants and auto repair shops are not growing so fast. That's mainly because of the high cost of entry. You could get a McDonald's or Aamco transmission outlet 20 or 30 years ago in a prime location for an initial fee of around $10,000. Today McDonald's won't talk to you unless you can come up with $225,000 to $400,000, depending on location. "In fact, you can hardly get anything long-established for under $250,000," says one consultant.

Why? Because the restaurant business is reaching saturation. Over 40% of all fast-food restaurants are already franchised, and in that business, says one consultant, "three things count: location, location and location." There are only so many good ones, even in high-growth suburbs. So the price of this dwindling supply is rising.

But if you're looking for safety, be prepared to pay these high prices. "There's a definite correlation between safety and size of investment," says Alfred Modica, who teaches marketing at Mercy College in Dobbs Ferry, N.Y. Today, an average McDonald's tops $1 million a year in revenues, and an operator may take home over $100,000. McDonald's is as close to a sure thing as a potential franchisee can find.

Newer businesses cost less to get into—about $40,000 for a Uniforce Temporary Personnel franchise, for example—but, of course, carry more risk. In fact, scores of service and high-tech franchise outlets have already closed their doors. Times are tough for newer fast-food outlets, too: Already in the bankruptcy courts have been Pizza Time Theatre, Arthur Treacher's Fish & Chips and Wienerwald, the parent company of International House of Pancakes.

And when a franchise company is living on the edge, so are its franchisees. According to one disgruntled doughnut store owner from New Jersey: "Some of us are working for less than the minimum wage."

These unexpected hard times have led to "more fraud suits than I ever would have thought possible just three years ago," says one lawyer. The suits are not aimed merely at the fast talkers who sell shaky franchises and skip town but at established franchisors who allegedly have failed to deliver what they promised. Take Command Performance, a Connecticut-based hair-salon chain, which sold franchises based on a model store in San Diego. Franchisees sued, claiming their sales were well under the model outlet's $12,000 per week.

In the midst of that, Command Performance filed for Chapter 11 in 1981. But three years later its stores are still operating. That's not unusual in franchising. Overall, says the Commerce Department's Kostecka, only about 5% of all franchised stores fail. This contrasts with a nearly 80% failure rate for independent small businesses. But Kostecka's 5% figure may be moot, because troubled franchised outlets rarely go out of existence. They are often sold back to the franchisor or to another operator at fire-sale prices.

The history of Command Performance shows that the franchising company itself also rarely dies. The company has been acquired by investor Leslie Charm, who controls Doctor Pet Centers of Wilmington, Mass., a successful pet store franchise.

Leslie Charm with two of Doctor Pet Centers' tenants
On to hair salons, at a fire-sale price.

Arthur Bartlett with the symbol of his Mr. Build home repair service
Will the Century 21 idea work in home repair?

Alan Lamm/Jill Peters

Charm's group also agreed to purchase Nutri/System, a chain of weight-reduction salons that had been burdened with franchisee litigation.

Such lawsuits do not generate the headlines of the scams that plagued franchising up through the late 1970s. But such scams are still around, despite a 1979 Federal Trade Commission rule ordering franchisors to provide more information, and laws in 15 states requiring registration. "Franchising is a lot more reputable, but there are still plenty of pitfalls for the unwary," says Modica.

What about the future? Law firms, dentists, executive recruiters, business brokers and banks are all areas that look promising for franchising. First Interstate of Los Angeles, for example, has franchised 24 banks in six states.

Business brokerage (FORBES, *Dec. 21, 1981*) is a growing field, too, with promise. But also with risk. Ask Anthony Lukashevich, a Chicago-area real estate salesman. In 1982 he put his $22,500 savings in a VR business Broker franchise in Aurora, Ill. After sinking another $100,000 into it, he is back at his old firm, because, he says, of lack of support services and poor location. However, he's still not off the hook. He's now trying to sell his franchise and seeking to settle with VR for 20 cents on each dollar of royalties he owes.

On the other hand, some business broker franchisees have done well. William and Judi Jasper paid $17,000 in 1981 for a VR franchise in Sarasota, Fla. Although they had no prior brokerage experience, their office is doing well, and they are happy with VR support. Says William: "If I fail, it's my own fault, not VR's."

A safer variant on straight franchising is conversion franchising, in which an independent company becomes a franchisee in order to capitalize on the parent's name. The real estate company of Century 21, founded by Arthur Bartlett in 1971, popularized the concept. Bartlett is now trying to duplicate his success by franchising Mr. Build, a home repair service with 500 outlets. A strength of Bartlett's technique is that his franchisees already know their business. "What you really need," says Roger Blackwell, who teaches business at Ohio State, "is somebody who is fanatical about a product or service, not somebody fanatical about franchising."

Whether an idea is franchisable or not, there are some consultants willing to put you into the business for a fee. When Carol Brothers, a businesswoman from Columbiana, Ohio, decided to become a franchisor, she paid a consultant $200,000. In return for that, she says, she got little except some fast talk and a handbook that was too vague to be useful. She then found the Cooper Group, a Canton, Ohio-based business consultant, who helped her establish Pop-Ins, a successful, now nationwide, housecleaning and maid service.

Most problems between franchisees and franchisors center on the franchisor's cut, typically about 20%. That figure includes a royalty of 6% or so of revenues, another 4% for advertising and 10% for lease and rental of equipment. The franchisor's take is often equal to a franchisee's yearly earnings, making them 50-50 partners. And if the franchisor has the right under the contract to raise the rent, he can, in effect, become the majority owner, perhaps even putting the franchisee out of business.

That's why the crucial decision every would-be franchisee must make is whether others can be allowed to have such power over him, even though he is nominally in business for himself. "Franchisees are not entrepreneurs," says marketing professor Modica. "If they were, they could never take the regimentation and rules imposed on them. This is for people who value security above risk." ■

UNIT III: EVALUATING A FRANCHISE--THE CONCEPT

Core Idea:

The core of this unit is to again emphasize the fact that in a franchise relationship the franchisee bears most of the risk. In a start-up business there is incremental risk that is somewhat within the owner's control. In a franchise, the franchisees may be betting all of their personal assets on one roll of the dice. At some point they have to trust their franchisors. The risk can only be minimized by thinking as though one is actually in a business start-up and doing the research accordingly. Participants in this class are obviously not experts in all of the many areas needed to research a business completely. Help them develop a most important skill--HOW TO FIND AND USE EXPERT ADVICE.

Goals:

- To help participants assess franchising as it relates to a specific type of industry.
- Discuss how industries cycle.
- Explore how to research an industry.
- To increase participant awareness of how regional differences may affect a market.
- To present the concept of the market and show its effect on evaluating a franchise.
- To begin designing a process to answer the question, "Is there a market for this product or concept in your area?"

Agenda:

- Discuss the idea that a franchise is part of a larger industry. Explain how the state of development of that industry will impact the demand for the product or service the franchise is offering.

- Discuss trends and how they affect markets. Share the concept of megatrends as developed by John Naisbitt. Describe how these trends and others create new markets and/or change existing markets.

- Invite a stock broker to discuss how an industry is analyzed in a brokerage firm. Have him describe how industries cycle.

- Discuss the fact that a business may be successful in one region of the country but not in another. There may be good reasons why there are no competitors in some areas for a particular business or product. Search them out.

- Refer participants to the handout on Location. Suggest they conduct their own research on location analysis to gain a basis for judging the quality of advice they are getting from the franchisor. Invite an assessor or a local developer to discuss the science of location analysis.

- o Hand out "Outline of a Marketing Plan," "Market Information Resources," and "Calculation to Determine Total Market Share." Discuss these. Answer questions. Have the class complete the handouts for the next session.

Handouts:

-- Outline of a Marketing Plan

-- Market Information Resources

-- Calculation to Determine Total Market Share

-- Site Selection Criteria

-- Marketing Checklist for Small Retailers

-- Store Location: "Little Things" Mean a Lot

-- Franchise Facts--Column excerpted from Inc. Magazine on specific franchise industries

-- Article: "Hot New Franchises" from Changing Times

-- Article: "How a Company Can Grow Through Franchising: A Case Study" Working Woman

-- Life Cycle of a Business or a Product

-- Exercise: Franchising and You

-- Exercise: Evaluating the Success Potential of an Industry Using Trend Analysis

Homework:

Read "How a Company Can Grow Through Franchising." Review the franchising kits that have already been given out. Prepare for the next session on evaluating a franchise.

HANDOUT

OUTLINE OF A MARKETING PLAN

I. MARKET ANALYSIS

A. Customers (Market)

Show what your market is by stating who your customers are (consumers, wholesalers, retailers, government, etc.).

Show why this market needs your product or service. Discuss whether or not your product/service is a fad or continuing need; being phased out or created by new technology.

List the characteristics of your average customers: age, location (market area), average income/sales, sex, lifestyle (family or single), working and other important information. The more you understand about your market, the better you can sell to it. Estimate how much the total market will spend on this or similar products/services in the next year.

B. Environment

Discuss any environmental factors (economic, legal, social or technological) that affect your market or product/service. Environmental factors are those that have significant affects on your operation, but over which you have no control, i.e., county growth, rising cost of energy, etc.

C. Competition

Discuss your competition: number of competitors (direct and indirect), type of company (i.e., product or service), location, age, reputation, size (sales or customers), market share.

Estimate how much of your product/service all the competition will provide in the next year.

List major competitors (names and addresses) and discuss their: product/service features, price, location/distribution, reputation/image, market share, size, age, product/service quality, and marketing strategy.

D. Competitive Advantages and Disadvantages

Note: The relationship of supply and demand will affect your marketing and sales strategy, i.e, high demand with low supply usually means less competition and less advertising. Conversely, low demand and high supply indicates a very competitive situation and a need for extensive marketing.

Discuss how your product/service meets market needs and how you compare with the competition in terms of product/service features, location/distribution, price, other.

Compare your estimates of the market's demand and the competitions's supply.

E. Projections

Give your projections in terms of the number of customers or items sold or contracts obtained, etc.

II. MARKET STRATEGY

A. Sales Strategy

Note: Your product/service will sell because one or more of the following is attractive: features, pricing (high, medium or low), distribution system (limited, widespread, etc.), and promotion.

Present your marketing strategy. Tell how you will get the edge on your competition and get customers. This is your action plan to get business.

B. Promotion Strategy

Note: When you are designing your promotional plan (advertising, personal selling, promotions, publicity, and community relations), remember you are selling to satisfy someone's need. Refer back to your Market Analysis on need.

Describe how you plan to promote your product/service. State how you will promote: advertising, direct mail, personal contacts, sponsoring events or other (word-of-mouth, trade associations, etc.).

If you plan to advertise, state what media you will use: radio, television, newspaper, magazines, telephone book yellow pages, and/or other billboard, etc.). State why you consider the media you have chosen to be most effective.

State the content of your promotion or advertising: what your product/service is, why it is attractive, the business location, the business hours, business phone number and other important information.

HANDOUT

MARKET INFORMATION RESOURCES

NOTE: The cost of some of the resources below is given. Most of the materials are in the reference section of your local library.

ENCYCLOPEDIA OF ASSOCIATIONS, Gale Research Co., Book Tower, Detroit, MI 48226

Ayer Directory of Publications - Lists trade publications by subject matter. Contact the editorial departments about the structure of the industry. Contact the sales, marketing, or research departments for buying patterns among their readers.

Sales, Marketing, Management magazine, "Survey of Buying Power," July issue each year.

Thomas's Register - Listing of companies by product and service line, organized geographically and alphabetically.

Directory of Business, Trade, and Public Policy Organizations, U.S. Small Business Administration, Office of Advocacy.

HANDOUT

CALCULATION TO DETERMINE TOTAL MARKET AND TOTAL MARKET SHARE

Define your market area (national, regional, or local), then divide the Total Market Potential by the number of competitors in that area. The answer is the Total Market Share you can expect to get, IF each competitor competes equally.

For example, let's say you are going to open a pizza parlor. You must first find out what your Total Market Potential is:

Determine the number of pizzas a household purchases per month from pizza parlors in your market area. Multiply that number by the number of households in your market area. The answer is the number of pizzas purchased in your area per month. Multiply that figure by the average dollar amount of pizza, and the answer is the total market potential (in either units or dollars).

2 pizzas/month household x 20,000 households = 40,000 pizzas/month
$5/pizza x 40,000 pizzas = $200,000 (Total Market Potential)

TOTAL MARKET SHARE

To determine Total Market Share divide the Total Market by the number of competitors. For example:

$200,000 divided by 5 competitors = $40,000 (Total Market Share)

ADJUSTMENTS

Obviously, if you are just opening a pizza parlor, you will not get an equal share of the total market. None of the competitors in the example above is getting exactly $40,000 each for their businesses. There are a number of factors which affect Total Market Share. They may include:

o New business:	Calculate your share down.
o Unique services (you deliver, your competitors don't):	Calculate your share up.
o Biggest competitor is the "in" place in town:	Calculate your share down.
o You serve both thin crust and Sicilian style (none of the others do):	Calculate your share up.

This list of variables will be based on the number of pizza parlors, their owners, their locations, their services, and their "extras." For each variable, you will have to calculate your share up or down.

HANDOUT

SITE SELECTION CRITERIA

General Questions

- Is the site centrally located to reach my market?
- What is the transportation availability and what are the rates?
- What provisions for future expansion can I make?
- What is the topography of the site (slope and foundation)?
- What is the housing availability for workers and managers?
- What environmental factors (schools, cultural, community atmosphere) might affect my business and my employees?
- What will the quality of this site be in 5 years, 10 years, 25 years?
- What is my estimate of this site in relation to my major competitor?
- What is the newspaper circulation? Are there concentrations of circulation?
- What other media are available for advertising? How many radio and television stations are there?
- Is the quantity and quality of available labor concentrated in a given area in the city or town? If so, is commuting a way of living in that city or town?

- Is the city centrally located to my suppliers?

- What are the labor conditions, including such things as relationships with the business community and average wages and salaries paid?

- Is the local business climate healthy, or are business failures especially high in the area?

- What about tax requirements? Is there a city business tax? Income tax? What is the property tax rate? Is there a personal property tax? Are there other special taxes?

- Is the available police and fire protection adequate?

- Is the city or town basically well planned and managed in terms of such items as electric power, sewage, and paved streets and sidewalks?

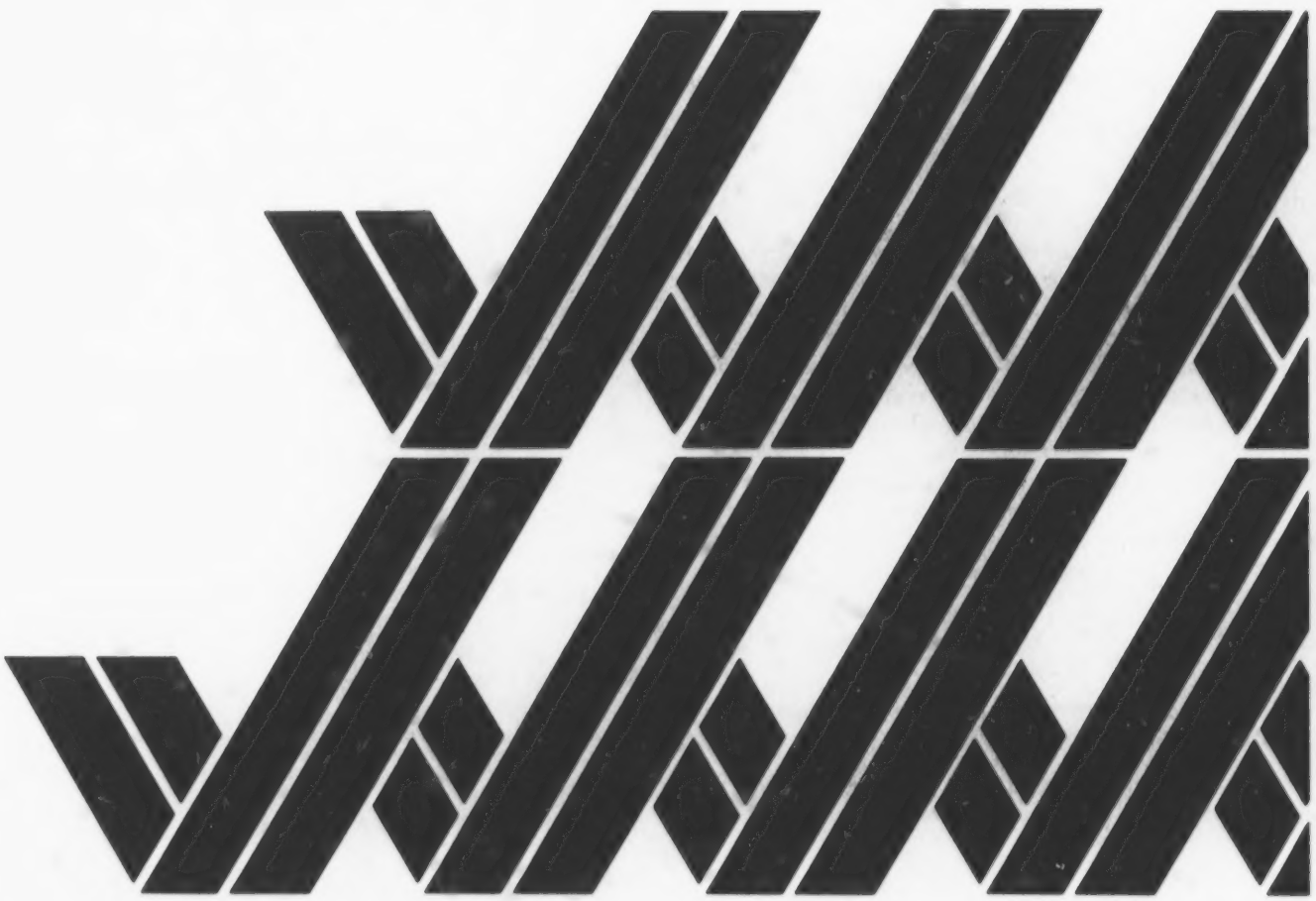
U.S. Small Business Administration
Management Assistance
Support Services Division

Management Aids
Number 4.012

SBA

Marketing Checklist for Small Retailers

By George Kress and R. Ted Will
Professors of Marketing
College of Business
Colorado State University
Fort Collins, Colorado



This Aid is a checklist for the owner-manager of a small retail business. The questions cover areas that undergird retail marketing as well as deal with obvious aspects like customer analysis, buying, pricing, and promotion. You can use it to evaluate your current status and, perhaps, to rethink certain decisions.

If your retail firm is to be successful over the long run, it must satisfy the needs and desires of its present and potential **Customers.** Sound **Buying** means knowing where to buy, what to buy, how much to buy, and how to place an order. This requires familiarity with old and new products, adequate amounts of the right stock on hand, and selecting and working with suppliers in ways that benefit the store. In **Pricing,** you need to understand the market forces affecting your business, plan the price policies that you will follow, and know whether or not your pricing policies meet State and Federal regulations.

You need to be familiar with various types of **Promotion** and when, where, and how to use them. In addition, a credit program or other special customer services can be attractions.

Under the heading of **Management** goes the establishment both of long- and short-range goals. How you set up your organization and how you communicate with your employees are crucial factors in the accomplishment of your goals. Of equal importance to good management is the ability to keep and make use of accurate **Financial Records.** It also pays to examine your **Insurance** coverage in various areas.

In answering the following questions, you will be reminded of what you may still need to do to round out all marketing aspects of your business.

Customer Analysis

Who are your target customers and what are they seeking from you?	**Yes**	**No**
Have you estimated the total market you share with competition?	☐	☐
Should you try to appeal to this entire market rather than a segment(s)?	☐	☐
If you concentrate on a segment, is it large enough to be profitable?	☐	☐
Have you looked into possible changes taking place among your target customers which could significantly affect your business?	☐	☐
Can you foresee changes in the makeup of your store's neighborhood?	☐	☐
Are incomes in the community apt to be stable?	☐	☐
Is the community's population subject to fluctuation?	☐	☐
Do you stress a special area of appeal, such as lower prices, better quality, wider selection, convenient location, or convenient hours?	☐	☐
Do you ask your customers for suggestions on ways to improve your operation?	☐	☐
Do you use "want slips"?	☐	☐
Do you belong to a trade association?	☐	☐
Do you subscribe to important trade publications?	☐	☐
Have you considered using a consumer questionnaire to aid you in determining customer needs?	☐	☐
Do you visit market shows and conventions to help anticipate customer wants?	☐	☐
Do most of your customers buy on weekends?	☐	☐
Do sales increase in the evening?	☐	☐
Do the majority of your customers prefer buying on credit?	☐	☐

Buying

Have you a merchandise budget (planned purchases) for each season?	**Yes**	**No**
Does it take into consideration planned sales for the season?	☐	☐
Does it achieve a planned stock turnover?	☐	☐
Have you broken it down by departments or merchandise classifications?	☐	☐
Have you a formal plan for deciding what to buy and from whom?	☐	☐

Have you a system for reviewing new items coming onto the market? ☐ ☐

Have you considered using a basic stock list or a model stock plan in your buying? ☐ ☐

Are you using some sort of unit control system? ☐ ☐

Do you keep track of the success of your buying decisions in previous years to aid you in next year's buying? ☐ ☐

Do you attempt to consolidate your purchases with two or three principal suppliers? ☐ ☐

Have you a useful supplier evaluation system for determining their performance? ☐ ☐

Have you established a planned gross margin for your firm's operations and are you buying so as to achieve it? ☐ ☐

Pricing

Have you established a set of pricing policies?	**Yes**	**No**
Have you determined whether to price below, at, or above the market?	☐	☐
Do you set specific markups for each product?	☐	☐
Do you set markups for product categories?	☐	☐
Do you use a one-price policy rather than bargain with customers?	☐	☐
Do you offer discounts for quality purchases, or to special groups?	☐	☐
Do you set prices to cover full costs on every sale?	☐	☐
Have you developed policy on when to take markdowns and how large?	☐	☐
Do the prices you have established earn planned gross margin?	☐	☐
Do you clearly understand the market forces affecting your pricing methods?	☐	☐
Do you know which products are slow movers and which are fast?	☐	☐
Do you take this into consideration when pricing?	☐	☐
Do you know which products are price sensitive to your customers, that is, when a slight increase in price will lead to a big dropoff in demand?	☐	☐
Do you know which of your products draw people when put on sale?	☐	☐
Do you know the maximum price customers will pay for certain products?	☐	☐
If the prices on some products are dropped too low, do buyers hesitate?	☐	☐
Is there a specific time of year when your competitors have sales?	☐	☐
Do your customers expect sales at certain times?	☐	☐
Have you determined whether or not a series of sales is better than one annual clearance sale?	☐	☐
Do you know what role you want price to play in your overall retailing strategy?	☐	☐
Are you influenced by competitors' price changes?	☐	☐

Are there restrictions regarding prices you can charge?	**Yes**	**No**
Do any of your suppliers set a minimum standard at which it can be sold?	☐	☐
Does your State have fair trade practice acts which require you to mark up your merchandise by a minimum percentage?	☐	☐
Are there any State regulations on how long "close-out" sales can be advertised?	☐	☐
Are you sure you know all the regulations affecting your business, such as two-for-one sales and the like?	☐	☐
Do you issue "rainchecks" to customers when sale items are sold out so they can purchase later at sale price?	☐	☐

Promotion

Are you familiar with the strengths and weaknesses of various promotional methods?	**Yes**	**No**
Have you considered how each type might be used for your firm?	☐	☐
Do you know which of your items can be successfully advertised?	☐	☐
Do you know which can be sold best by demonstrations?	☐	☐
Do you know when it is profitable to use institutional advertising?	☐	☐
Do you know when product advertising is better?	☐	☐
Do you know which of the media (radio, television, newspapers, yellow pages, handbills) can most effectively reach your target group?	☐	☐
Do you know what can and cannot be said in your ads (Truth in Advertising requirements)?	☐	☐
Can you make use of direct mail?	☐	☐
Is a good mailing list available?	☐	☐
Are your promotional efforts fairly regular?	☐	☐
Do you concentrate them on certain seasons?	☐	☐
Are certain periods of the week better than others?	☐	☐

Is there available financial or technical assistance which you can use to enhance your promotional efforts?	**Yes**	**No**
Can you get help from local newspapers, radio, or television?	☐	☐
Are cooperative advertising funds available from suppliers?	☐	☐
Do you tie your local efforts to your supplier's national program?	☐	☐
Do you join with other merchants in area-wide programs?	☐	☐
Have you looked for ratios to estimate what comparable firms are spending on promotion?	☐	☐
Do you study the advertising of other successful retail firms, as well as of your competitors?	☐	☐
Have you some way of measuring the success of the various promotional programs you are using?	☐	☐

Are your products displayed to maximize their appeal within the store?	**Yes**	**No**
Do you know which of your items have unusual eye appeal and can be effective in displays?	☐	☐
Have you figured out the best locations in the store for displays?	☐	☐
Are you making use of window displays to attract customers?	☐	☐
If you use multitiered display stands or gondolas, do you know which shelves are the best sellers?	☐	☐
Have you a schedule for changing various displays?	☐	☐
Do you display attention-getting items where they will call attention to other products as well?	☐	☐
Do you know which items are bought on "impulse" and therefore should be placed in high traffic areas?	☐	☐
Where price is important, do you make sure the price cards are easy to read?	☐	☐
Do your suppliers offer financing of accounts receivable, floor planning, and so forth?	☐	☐

Do you know what type of credit program (if any) you should offer?	**Yes**	**No**
Does the nature of your operation require some type of credit for your customers?	☐	☐
Have you discussed credit operations with your local credit bureau?	☐	☐
Would a credit program be a good sales tool?	☐	☐
Is a credit program of your own desirable?	☐	☐
Have you looked into other programs of credit cards?	☐	☐

If you set up your own credit program, do you know what standards you should use in determining which customers can receive credit, for what time periods, and in what amounts? ☐ ☐

Do you know all of the costs involved? ☐ ☐

Will the interest you charge pay for these costs? ☐ ☐

Do you know about the Fair Credit Reporting Act? ☐ ☐

Are you familiar with the Truth-in-Lending legislation? ☐ ☐

Have you determined a safe percentage of your business to have on credit that won't jeopardize paying your own bills? ☐ ☐

Have you discussed your credit program with your accountant and attorney? ☐ ☐

Do you offer some special customer services?	**Yes**	**No**
If you offer delivery service, do you own your vehicles?	☐	☐
Have you considered leasing them instead?	☐	☐
Have you thought about using commercial delivery service?	☐	☐
Do you charge for delivery?	☐	☐
If not, do you know how to work the delivery expenses into the selling price of your products?	☐	☐
Have you a policy for handling merchandise returned by customers?	☐	☐
Have you considered certain obligations to your community, in terms of charitable contributions, donations for school functions, ads in school yearbooks?	☐	☐
Do you participate in activities of your chamber of commerce, merchants' association, better business bureau, or other civic organizations?	☐	☐

Management

Have you developed a set of plans for the year's operations?	**Yes**	**No**
Do your plans provide methods to deal with competition?	☐	☐
Do they contain creative approaches to solving problems?	☐	☐
Are they realistic?	☐	☐
Are they stated in such a way that you know when they have been achieved?	☐	☐
Have you a formal plan for setting aside money to meet any quarterly tax payments?	☐	☐

Are you organized effectively?	**Yes**	**No**
Are job descriptions and authority for responsibilities clearly stated?	☐	☐
Does your organizational structure minimize duplication of effort and maximize the use of each employee's skills?	☐	☐
Do employees understand how they will be rated for promotion and salary increases?	☐	☐
Does your wage schedule meet the local rate for similar work and retain competent employees?	☐	☐
Would you or some of your employees profit by taking business education courses offered at local schools?	☐	☐
Will training help your employees achieve better results?	☐	☐
Do your experienced employees help train new and part-time employees?	☐	☐
Have you good working conditions?	☐	☐
Do you use positive personal leadership techniques like being impartial, giving words of encouragement and congratulations, and listening to complaints?	☐	☐
Are you familiar with the Fair Labor Standards Act as it applies to minimum wages, overtime payments, and child labor?	☐	☐

Do you avoid all forms of discrimination in your employment practices?	☐	☐
Do you have a formal program for motivating employees?	☐	☐
Have you taken steps to minimize shoplifting and internal theft?	☐	☐
Have you an effective system for communicating with employees?	**Yes**	**No**
Are they informed on those plans and results that affect their work?	☐	☐
Do you hold regular meetings that include all personnel?	☐	☐
Do your employees have their own bulletin board for both material you need to post and items they wish to post?	☐	☐
Have the "rules and regulations" been explained to each employee?	☐	☐
Does each employee have a written copy?	☐	☐
Is each employee familiar with other positions and departments?	☐	☐
Do you have an "open door" policy in your office?	☐	☐

Financial Analysis and Control

Have you established a useful accounting system?	**Yes**	**No**
Do you know the minimum amount of records you need for good control?	☐	☐
Do you know all the records you should keep to aid you in meeting your tax obligations on time?	☐	☐
Do your Sales records give you the key information you need to make sound decisions?	**Yes**	**No**
Can you separate cash sales from charge sales?	☐	☐
Can sales be broken down by department?	☐	☐
Can they be broken down by merchandise classification?	☐	☐
Do they provide a way to assess each salesperson's performance?	☐	☐
Do your Inventory records give you the key information you need to make sound decisions?	**Yes**	**No**
Do they show how much you have invested in merchandise without the necessity of a physical inventory?	☐	☐
Do you know the difference between inventory valuation at cost and at market?	☐	☐
Can you tell which one shows a loss in the period earned?	☐	☐
Can you tell which one conserves cash?	☐	☐
Do you understand the pros and cons of the cost method of inventory accounting versus the retail method?	☐	☐
Have you found an accounting method that shows the amount of inventory shortages in a year?	☐	☐
Do your Expense records give you the key information you need to make sound decisions?	**Yes**	**No**
Do you know which expense items you have the greatest control over?	☐	☐
Are the records sufficiently detailed to identify where the money goes?	☐	☐
Can you detect those expenses not necessary to the successful operation of your business?	☐	☐
Do you effectively use the information on your profit and loss statement and balance sheet?	**Yes**	**No**
Do you analyze monthly financial statements?	☐	☐
Can you interpret your financial statements in terms of how you did last year and whether you met this year's goals?	☐	☐
Do your financial statements compare favorably with other similar businesses in terms of sales, cost of sales, and expenses?	☐	☐
Are you undercapitalized?	☐	☐

Have you borrowed more than you can easily pay back out of profits?	☐	☐
Can you see ways to improve your profit position by improving your gross margin?	☐	☐
Do you use the information contained in your financial statements to prepare a cash budget?	☐	☐

Insurance

Have you adequate insurance coverage?	**Yes**	**No**
Do you have up-to-date fire coverage on both your building equipment and inventory?	☐	☐
Does your liability insurance cover bodily injuries as well as such problems as libel and slander suits?	☐	☐
Are you familiar with your obligations to employees under both common law and worker's compensation?	☐	☐
Do you spread your insurance coverage among a number of agents and take the risk of overlapping coverage or gaps which may raise questions as to which firm is responsible?	☐	☐
Has your insurance agent shown you how you can cut premiums in areas like fleet automobile coverage, proper classification of employees under worker's compensation, cutting back on seasonal inventory insurance?	☐	☐
Have you looked into other insurance coverage, such as business interruption insurance or criminal insurance?	☐	☐
Do you have some fringe benefit insurance for your employees (group life, group health, or retirement insurance)?	☐	☐

These questions are meant to help you analyze your retail operation from the marketing viewpoint. You should know the strengths of your business and products. You must also know the real problems you are up against. Your business depends on your good sense and management foresight. You must adapt to new markets, product changes, and be innovative to keep your business growing.

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Store Location: "Little Things" Mean A Lot

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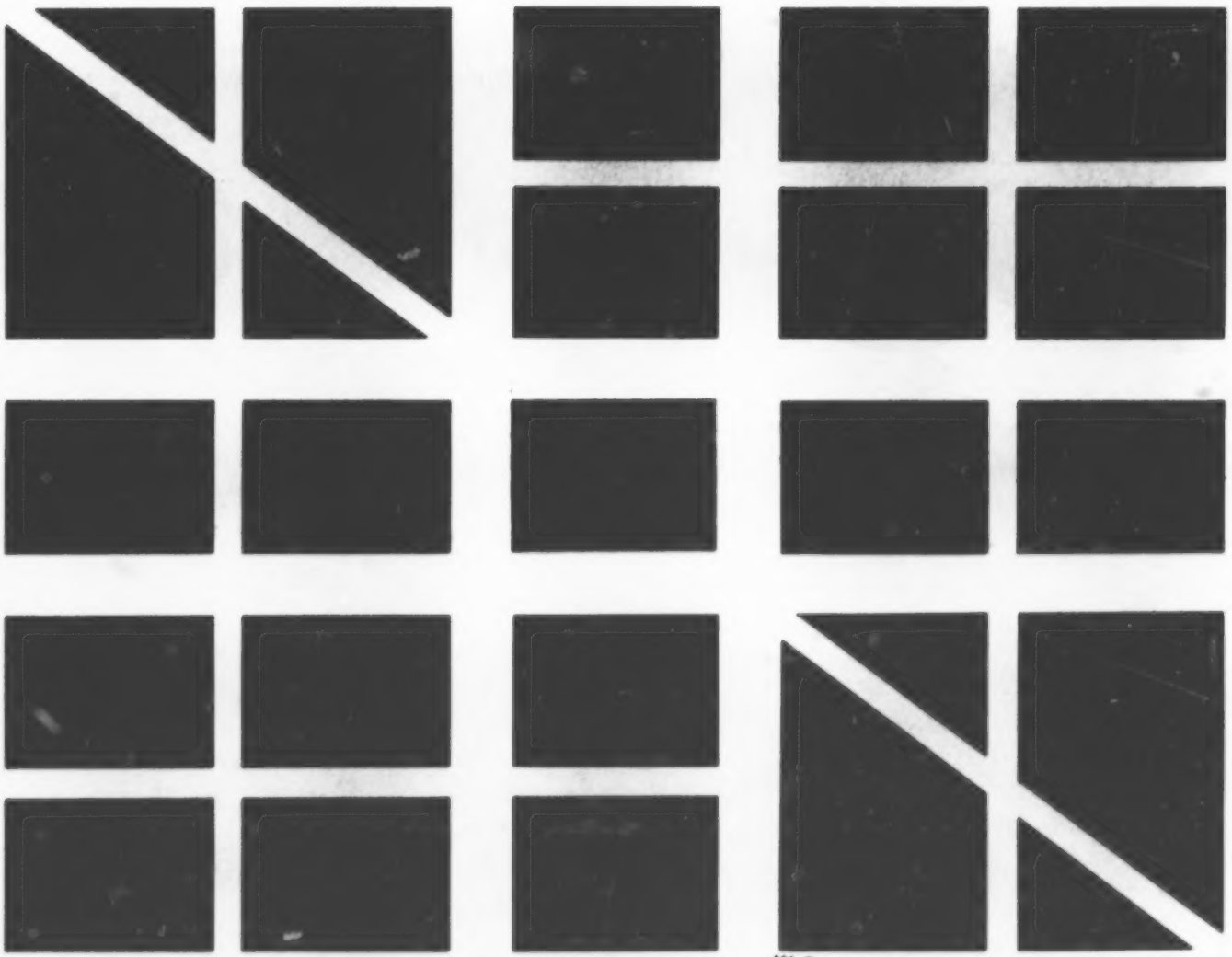

Summary

The choice of a store location has a profound effect on the entire business life of a retail operation. A bad choice may all but guarantee failure, a good choice success.

This Aid takes up site selection criteria, such as retail compatibility and zoning, that the small store owner-manager must consider after making basic economic, demographic, and traffic analyses. It offers questions the retailer must ask (and find answers to) before making the all important choice of store location.

The first step in choosing a retail business location takes place in your head. Before you do anything else, define your type of business in the broadest terms and determine your long term objectives. Write them down. This exercise will help you greatly later in choosing a retail location.

In picking a store site, many store owners believe that it's enough to learn about the demographics ("people information" like age, income, family size, etc.) of the population, about the kind of competition they'll be facing, and about traffic patterns in the area they're considering. Beyond a doubt these factors are basic to all retail location analysis.

Once you've spotted a tentative location using these factors, however, you've only done half the job. Before you make a commitment to moving in and setting up, you must carefully check several more aspects of the location to help insure your satisfaction with—and most importantly your success at—the site you've chosen.

Retail Compatibility

How important is retail compatibility? For a small retail store in its first year of operation, with limited funds for advertising and promoting, **retail compatibility can be the most important factor** in the survival of the store.

Will you be located next to businesses that will generate traffic for your store? Or will you be located near businesses that may clash with your?

For example, if you offer "shoppers goods" (items such as men's and women's clothing, major appliances, or expensive jewelry), the best location is near other stores carrying shoppers goods. Conversely, locating your shopper's goods store in a "convenience goods" area or center is not recommended. (Convience goods stores include, amoung other, supermarkets, hardware stores, bakeries, package stores, and drug stores.)

Take a look at shopping centers in your area. Invariably, you'll find a clothing or shoe store — in trouble — in an otherwise convience goods shopping center.

On the other hand, with the advent of the "super" mall and regional shopping center, shoppers goods and convenience goods outlets may now be found co-existing easily under the same roof. In this situation, it is still important to be located in a section of the shopping complex that is conducive to what you're selling. For example, a pet store should not be located immediately adjacent to a restaurant, dress shop, or salon. You would want to locate a gift shop near places like department stores, theaters, restaurants, — in short, any place where lines of patrons may form, giving potential customers several minutes to look in the gift shop's display windows.

Merchants' Associations

Most first time business owners have no idea how effective a strong merchant's association can be in promoting and maintaining the business in a given area. Always find out about the merchant's association. The presence of an effective merchants' association can strengthen your business and save you money through group advertising programs, group insurance plans, and collective security measures.

A strong merchants association can accomplish through group strength what an individual store owner couldn't even dream of. Some associations have induced city planners to add highway exits near their shopping center. Other have lobbied for—and received—funds from cities to remodel their shopping centers, including extension of parking lots, refacing of buildings, and installation of better lighting.

Merchants' associations can be particulary effective in promoting of stores using common themes or events and during holiday seasons. The collective draw from these promotions is usually several times that which a single retailer could have mustered.

How can you determine if the retail location you're considering has the benefit of an effective merchants' association? Ask other store owners in the area. Find out:

How many members the association has;

Who the officers are;
How often the group meets;
What the yearly dues are; and
What specifically, it has accomplished in the last 12 months.

Ask to see a copy of the last meeting minutes. Determine what percentage of the members were in attendance.

What if there is no merchants' association? Generally (though not always) a shopping area or center with no merchants' association, or an ineffective one, is on the decline. You'll probably see extensive litter or debris in the area, vacant stores, a parking lot in need of repair, and similar symptoms. You should shun locations with these warning signs. With a little on-site investigation, they're easy to avoid.

Responsiveness of the Landlord

Directly related to the appearance of a retail location is the responsiveness of the landlord to the individual merchant's needs. Unfortunately, some landlords of retail business properties actually hinder the operation of their tenants' businesses. They are often, in fact, responsible for the demise of their properties.

By restricting the placement and size of signs, by foregoing or ignoring needed maintenance and repairs, by renting adjacent retail spaces to incompatible — or worse, directly competing — businesses, landlords may cripple a retailer's attempts to increase business.

Sometimes landlords lack the funds to maintain their properties. Rather than continuing to "invest" in their holdings by maintaining a proper appearance for their buildings and supporting their tenants, they try to "squeeze" the property for whatever they can get.

To find out if a landlord is responsive to the needs of the retail tentants talk to the tenants before you commit to moving in yourself. Ask them: 1) Does the landlord return calls in a reasonable period and send service people quickly? 2) Is it necessary to nag the landlord just to get routine maintenance taken care of? 3) Does the landlord just collect the rent and disappear, or is he or she sympathetic to the needs of the tentants? 4) Does the landlord have any policies that hamper marketing innovations?

In addition to speaking with current tenants, talk to previous tenants of the location you have in mind. You'll probably come up with a lot of helpful information. Find out what businesses they were in and why they left. Did they fail or just move? What support or hinderances did the landlord provide? If the opportunity presented itself, would they be retail tenants of this landlord again?

Zoning and Planning

Your town's zoning commission will be happy to provide you with the latest "mapping" of the retail location and surrounding area that you are considering. Here are some questions to consider:

Are there restrictions that will limit or hamper your operations?

Will construction or changes in city traffic or new highways present barriers to your store?

Will any competitive advantages you currently find at the location you're considering be diminished by zoning changes that will be advantageous for competitors or even allow new competitors to enter your trade area?

Most zoning boards, along with economic/regional development committees, plan several years in advance. They can probably provide you with valuable insights to help you decide among tentative retail locations.

Leases

Directly related to zoning is your intended length of stay and your lease agreement. Before you enter into any rigid lease agreement, you must get information on future zoning plans and decide how long you wish to remain at the location under consideration:

Do you plan to operate the business in your first location indefinitely or have you set a given number of years as a limit?

If your business is successful, will you be able to expand at this location?

Is your lease flexible, so that you have an option to renew after a specified number of years? (On the other hand, is the lease of limited duration so, if need be, you may seek another location?)

Study the proposed lease agreement carefully. Get advice from your lawyer or other experts. Does the agreement:

Peg rent to sales volume (with a definite ceiling) or is rent merely fixed?

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Protect you as well as the property owner?

Put in writing the promises the property owner has made about repairs, construction and reconstruction, decorating, alteration, and maintenance?

Contain prohibitions against subleasing?

Consider these factors *before* you settle on a location.

Other Considerations

A host of other considerations have varying importance in choosing a retail location, depending on your line of business. The following questions, while they certainly don't exhaust all possibilities, may help you decide on a retail location:

How much retail, office, storage or workroom space do you need?

Is parking space available and adequate?

Do you require special lighting, heating or cooling, or other installations?

Will your advertising expenses be much higher if you choose a relatively remote location?

Is the area served by public transportation?

Can the area serve as a source of supply of employees?

Is there adequate fire and police protection?

Will sanitation or utility supply be a problem?

Is exterior lighting in the area adequate to attract evening shoppers and make them feel safe?

Are customer restroom facilities available?

Is the store easily accessible?

Does the store have awnings or decks to provide shelter during bad weather?

Will crime insurance be prohibitively expensive?

Do you plan to provide pick up or delivery?

Is the trade area heavily dependent on seasonal business?

Is the location convenient to where you live?

Do the people you want for customers live nearby?

Is the population density of the area sufficient?

Help in Choosing a Location

Choosing a retail location is, at best, a risky undertaking. Considering the consequences of choosing a location that proves to be unsuitable, it pays to get as much assistance as possible.

The local chamber of commerce in a city of more than 125,000 usually has a division devoted primarily to assisting budding owner-managers in finding suitable locations for their businesses. This is a free service that suprisingly few people take advantage of.

The U.S. Small Business Administration (SBA) has field offices located throughout the country. SBA field offices can provide free counseling assistance, literature, and information to help you select a retail site. (See your local directory under "U.S. Government.")

You may wish to hire a consultant to analyze two or three locations that you have selected. It costs less if you provide the consultant with preselected potential locations than to have him or her initate an open-ended search for a location. The business school of a nearby college or university may also be able to provide help.

Other sources of information on potential locations include bankers and lawyers, who may have been in position to have observed over an extended period of time many locations where other clients previously did business. Realtors can also provide information on location. Remember though, their compensation is based upon commissions for renting property.

Locate in Haste, Repent at Leisure

Selection of a retail location requires time and careful consideration. It should not be done in haste just to coincide, say, with a loan approval. If you haven't found a suitable location, don't plan to open until you're sure you've got what you want. Put your plans on hold, don't just settle for a location you hope might work out. A few months delay is only a minor setback compared to the massive—often fatal—problems that occur from operating a retail business in a poor location.

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FRANCHISE FACTS

OPPORTUNITIES IN CAR RENTALS

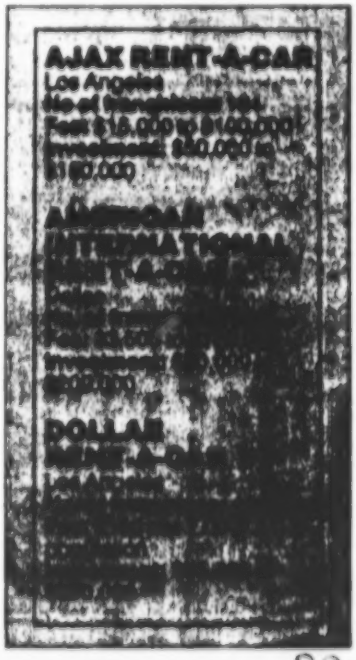
After two stagnant years, the car rental industry is making a comeback thanks to an increase in business air travel and a decrease in interest rates on car loans. When 1983 figures are tabulated, car rental revenues are expected to have risen 8.9% to $4 billion, according to U.S. Dept. of Commerce projections, with franchises accounting for $1.6 billion. Fred Mudgett, president of Fred Mudgett & Associates, a car rental industry consulting firm in Ormond Beach, Fla., predicts sales volume will double by 1990.

Competition for car rental franchises is tough—yet penetrable. In 1981, the last year for which such statistics were compiled, the top three car rental companies (Hertz, New York; Avis, Garden City, N.Y.; and National, Minneapolis) wrapped up 69.3% of all franchise sales, and there is not much potential for franchisees to get a piece of that action unless they buy an existing operation directly from a franchisee. Avis and National spokespersons say the companies have saturated the highly profitable airport market, where 75% of cars are rented, and they plan to put company-owned stores, and not franchises, in most new major-traffic markets.

The opportunities are mostly outside the Big Three. For instance, Budget Rent A Car Corp., Chicago, the number four renter, is setting up franchises in smaller airports and suburban locations, says Mark Salter, franchise distribution manager.

The biggest growth is in the middle tier of car rental companies: Dollar Rent A Car Systems Inc., Los Angeles; Thrifty Rent-A-Car System, Tulsa; American International Rent-A-Car, Dallas; Holiday-Payless Rent-A-Car System, St. Petersburg, Fla.; Ajax Rent A Car Co., Los Angeles; and others, according to Mudgett. Most are located on off-airport sites less than two miles away from the terminal, and in suburbs and small towns. They cater primarily to small- and medium-size corporate accounts and vacationing families.

Another area of opportunity is in the newest segment of the industry, the pre-owned (the industry prefers that term over "used") renters, such as Ugly Duckling Rent-A-Car System Inc., Tucson, and Rent-a-Wreck, Los Angeles. They primarily sell neighborhood franchisees that rent one- to-six-year-old cars to families and, increasingly, cost-conscious business travelers. While an expense-account executive can rent one of Budget's Lincoln town cars equipped with a phone for $47.95 a day, a business traveler on a budget can pull out of Ugly Duckling in a 1977 Pinto for $10 a day. Martin Boehm, a research analyst with the International Franchise Assn., a franchisor trade group, says hooking up with a smaller franchisor is a good bet if it is known throughout a region of the country, or if it is targeting a narrow segment of the population that the Big Three are not reaching.



such as the no-frills budget market. Mudgett says franchisees in the car rental industry earn an average 15% profit, and that return on investment, after the startup period, is generally at a rate of at least 20%.

The cost of buying a franchise varies considerably. Many franchisors will help the prospective franchisee get financing through a lending institution; few provide direct financing. In 1981, the total investment and startup costs for car rental franchises ranged from $6,000 to $550,000, according to the U.S. Dept. of Commerce. The median cost was $75,000. (These figures do not include the cost of cars, since most rental cars are 100% financed.) Cash requirements in 1981 ranged from $1,000 to $75,000; the median figure was $35,000. The average sales per franchise in 1981 were $249,000. Franchisors say royalty and advertising fees are usually about 7% of monthly rental, mileage, and collision insurance receipts.

It takes anywhere from two to several hundred employees to run a car rental franchise. A new franchise can open a freestanding Rent-A-Wreck service in a small town with 12 cars and two employees. For larger towns, a 75-car fleet and a staff of five employees are needed, including a manager and mechanic. A large outfit with a 200-car fleet needs about 12 employees.

Most car rental franchisees keep their cars for 12 to 14 months and then resell them to the public. Since buying and selling cars is a crucial part of the business, many franchisors say they prefer franchisees with a background in automobile-related companies. Training usually involves one to three weeks of on-sight instruction at the franchisor headquarters. Many franchisors send representatives to assist with the opening of the franchise, and provide ongoing training sessions. —*Julia Lieblich*

Information on individual franchises is provided by the franchisor. Appearance on this page does not constitute endorsement by VENTURE.

HOT NEW F

BUYING A PIECE OF A PROVEN IDEA CAN GET YOUR OWN BUSINESS OFF TO A FLYING START.

They may not have the high profile of a Wendy's, the high-tech image of a Radio Shack or the high-rise possibilities of a Holiday Inn, but many of the hot new franchises of the '80s have something nice and low going for them: start-up fees of $100,000 or less, often well under $50,000.

Phillip and Kathy Westmoreland took $16,000 of their own, $5,000 from their family, plus a Small Business Administration loan and parlayed their investment into a comfortable profit after less than a year of operating their suburban Louisville outlet of the Corn Popper. Now they're plowing the profits back into two new stores, scheduled to open this year.

Cheryl Marut and her partner invested $19,000 in their Tender Sender package-wrapping outlet in Sherman Oaks, Cal., last fall, not counting the cost of supplies and services needed to get started. "Business was so good over Christmas that it allowed us to pay off the investment and finish the year with about a $5,000 profit," says Marut.

Eric Golden of Hollywood, Fla., figures that by the end of his first year in business he'll more than make back the

"Parachute time": Sharyn Lawall and Deborah Briggs (top, left to right, in red shirts) have already made back the $54,000 it took to start their three Gymboree centers in Manhattan last year.

$20,000 it took to buy his Instant Photo franchise.

What the Westmorelands, Marut and Golden have in common is that they hooked up with relatively new, innovative franchisors selling products and services that are finding a receptive market. As the Baskin-Robbins of popcorn, the Corn Popper pops and sells 32 flavors of corn packed in distinctive canisters. Tender Sender packs, wraps and ships gifts for busy shoppers, mostly at suburban malls. Instant Photo takes pictures for special events, such as company parties or product promotions.

These are not famous franchises with decades of experience and national advertising campaigns. And that's the point. Big businesses bear big price tags. The capital investment needed for a Wendy's franchise is $650,000. A Holiday Inn takes over $1 million. Radio Shack no longer even solicits franchisees for U.S. outlets.

New, smaller franchise opportunities are popping up all the time. A couple of hundred have come along every year for the last five, and the pace shows no signs of slowing.

The idea is simple enough. A company, often one that has been in business independently for a number of years, puts into manuals and handbooks its method and standards of operation—its format—and sells that format to interested entrepreneurs. The franchisor typically promises to provide national or regional advertising support, training in how to run the business, help in picking a location and finding suppliers, and continuing guidance and monitoring of the operation. In return the franchisee pays a fee to get started and, normally, a percentage of gross sales income, which may range from 3% to 12%.

RISKS ON THE GROUND FLOOR

The attraction of a franchise is undeniable. "A lot of these smaller companies offer a great way for a person to make a decent living," says Andrew Kostecka of the U.S. Commerce Department's International Trade Administration and the chief gatherer of statistics on franchising. "I talk to many people who make $20,000 a year in a job. In a franchise that person can make $45,000 and have pride of ownership. You don't have to become a millionaire to be successful and happy."

Going into business is risky. Going into a franchised business, with a parent company holding your hand, can lower the risk considerably. But franchising a new idea is still a high-risk proposition, says Robert Kushell, president of the Franchise Learning and Consulting Center in Glen Cove, N.Y. "In new franchises, you'll see a lot of unbridled enthusiasm, but the businesses may be unproven." It's very important to face up to the risk, says Kushell, because the

SCOTT GOLDSMITH—BLACK STAR

Strawberry- and banana-flavored popcorn hits the cooling tray at Phillip and Kathy Westmoreland's Corn Popper outlet in Louisville. They signed the lease on their first store in June 1983. Now Phil pops the corn—400 gallons each day—and manages the store. Kathy works as an elementary school librarian but helps out after hours and keeps track of the artists hired to paint the decorative cans they sell filled with popcorn. The Westmorelands are getting ready to open two new stores this summer—one in a suburban mall and another in Louisville's revitalized Theater Square area.

personal stakes are so great: "Most people who buy a franchise have hocked everything they own."

Craig Slavin, president of The Franchise Architects, consultants to franchisors and franchisees, says people who want to buy a franchise need financial resources, the human resources to run the business, and dedication of time to make it work. "If you can't meet all three of those criteria, the risks go way up," he says.

"One of the big causes of failure of new businesses is undercapitalization and then running out of cash early in the business," says Roger Hutt, associate professor of business at Arizona State University. "That is why franchisors will require that you have a certain amount of cash to invest and the assets needed to stick it out. They know the statistics, and they want to build success into the system."

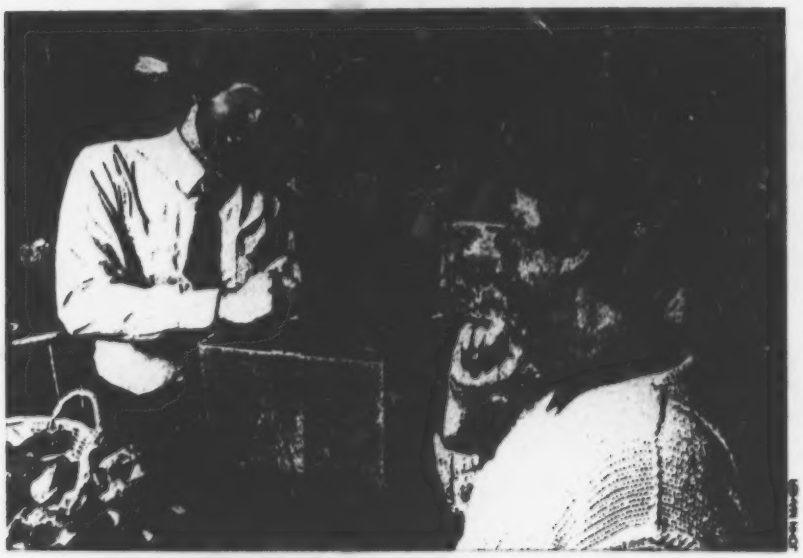
One risk factor that many prospective franchisees don't take a look at, says Hutt, is the possibility of the franchisor getting into financial trouble. "Most franchises require an initial cash franchise fee, plus continuing royalty payments on the gross income of the franchisee. If that's the franchisor's major source of income, then the franchisor will need healthy, successful franchisees in order to be successful himself," Hutt says. "This kind of relationship should be mutually beneficial to franchisee and franchisor, and the franchisor is more likely to do whatever is necessary to help the franchisees prosper." There may be reason to question the long-term stability of a franchise company that does not require royalty payments and is making money primarily on sales of franchises. "If either the franchisor or the franchisee is undercapitalized, there'll be problems," Hutt adds.

To reduce the risk of going into business with a new franchise company, find out beforehand all you can about the company and its business plan. Fortunately, that can be easier with a new company because the president is usually also the creator of the business, has operated an outlet like the one you would be buying and is more accessible to prospective franchisees in the early years of the company.

If possible, have a face-to-face meeting with the president. Don't be distracted by his or her enthusiasm, but take advantage of your meeting to ask about the creator's background, how the business works and the probable returns you can expect. Hutt suggests asking, "What did the company do before it started selling franchises? Did it first build and operate a prototype business? Did it run the prototype long enough to know that the formula works? Did it test the layout of the store as well as the method of operation?"

When you look at the newer franchise companies, spend a lot of time examining their field of business. Look for companies that can anticipate broad and growing markets for the products and services they produce. Service is the most rapidly growing segment of the economy, and market researchers expect growing opportunities in such areas as maid and housecleaning services, home remodeling, beauty salons and haircutting, small-job printing and luxury-car cleaning.

Says Slavin, "Almost any type of service business today I would put in the category of boom. Many are geared to professionals and businesses. Day care is extremely viable; we're in the midst of another baby boom. Anything related to health care—weight loss, for instance—is very strong. Food will continue to be very strong for franchising. There will be opportunities in transportation. Greyhound has announced it will franchise some of its routes. Any industry



Tender Sender franchisors Mike and Laura Hanna, shown above at a Portland, Ore., store they use to train new franchisees, started their million-dollar gift-wrapping, packing and shipping business out of their garage in 1982. Today they have 52 outlets throughout the U.S. and hope to open 70 to 100 more stores this year. Instant Photo franchisee Eric Golden, left, brings his camera to his customers. Here he's photographing golfers at a recent Chamber of Commerce outing in Miami.

Franchises You Can Own for $75,000 or Less

Below is a sampling of young franchise businesses available in growing fields today, with descriptions of their operations and the investment required. In many cases a portion of the capital required can be financed.

If you are interested in any of these companies, check them out thoroughly, with the assistance of professionals, as described in the accompanying article. *Changing Times* does not endorse or recommend individual companies.

COMPANY & PRESIDENT	YEAR BUSINESS STARTED	YEAR FRANCHISING STARTED	NO. OF FRANCHISED OUTLETS	STARTING CAPITAL NEEDED	DESCRIPTION
BETTER BIRTH FOUNDATION, INC. 733 MAIN ST. STONE MOUNTAIN, GA. 30083 404 469-8870 BRENDA SEAGRAVES	1981	1981	5	$11,500	OFFERS COURSES IN BIRTH PREPARATION FOR COUPLES, FAMILIES AND CHILDREN; POST-PARTUM CLASSES FOR NEW MOTHERS AND INFANTS; INFANT MASSAGE AND EXERCISE.
THE CORN POPPER, INC. 2828 MERRELL RD. DALLAS, TEX. 75229 214 351-5993 P. MICHAEL STEWART	1978	1981	134	75,000–100,000	STORES SELL POPCORN PACKAGED IN UNIQUE CONTAINERS, IN 32 DIFFERENT FLAVORS.
GYMBOREE CORP. 872 HINCKLEY RD. BURLINGAME, CAL. 94010 415 692-8080 ROBERT M. JACOB, VICE-PRESIDENT	1976	1979	164	24,000	OFFERS WEEKLY PLAY AND MOVEMENT CLASSES FOR CHILDREN, AGES 3 MONTHS TO 4 YEARS, AND THEIR PARENTS, USING SPECIALLY DESIGNED EQUIPMENT.
HOMECALL, INC. 30 E. PATRICK ST. FREDERICK, MD. 21701 301 663-8818 DR. DORIS E. HANSON	1975	1976	9	40,000–70,000	FULL HOMEMAKING AND HOME HEALTH CARE SERVICES.
INSTANT PHOTO CORP. OF AMERICA 20280 GOVERNORS HWY. OLYMPIA FIELDS, ILL. 60461 312 747-6644 JIM MERCON	1978	1983	21	25,000	SPECIAL-EVENTS INSTANT PHOTOGRAPHY FOR CORPORATIONS AND SHOPPING CENTERS.
NANNY POP-INS, LTD. 8097 ROSWELL RD., N.E. BUILDING E, SUITE 102 ATLANTA, GA. 30338 404 399-6186 BARBARA ADAMEK AND CATHIE SIEMER, COFOUNDERS	1982	1984	4	25,000–35,000	OFFERS IN-HOME CHILD CARE ON A CONTRACT BASIS. ALL NANNIES ARE PROFESSIONALLY TRAINED, SUPERVISED, BONDED AND INSURED.
THE ORIGINAL GREAT AMERICAN CHOCOLATE CHIP COOKIE CO., INC. 4685 FREDERICK DR., S.W. ATLANTA, GA. 30336 404 696-1700 ARTHUR S. KARP	1977	1978	240	30,000–35,000	RETAIL COOKIE STORES PRIMARILY IN MAJOR MALLS NATIONWIDE.
POP-INS, INC. 1280 N. CONGRESS AVE. SUITE 220 WEST PALM BEACH, FLA. 33409 800 227-1728 CAROL BROTHERS	1977	1979	101	12,500–37,500	TRAINED TEAMS PROVIDE CUSTOMIZED HOME OR OFFICE CLEANING, "DRY" CARPET CLEANING, AND PARTY-SERVING SERVICE.
SARA CARE FRANCHISE CORP. 1200 GOLDEN KEY CIRCLE SUITE 227 EL PASO, TEX. 79925 800 351-CARE SARA ADDIS	1978	1983	32	30,000	PROVIDES COMPANION, BABY-, HOUSE- AND PET-SITTING; ROADRUNNER (ERRAND); TUTOR; MAID; HOSTESS; AND LATCHKEY-PAL SERVICES.
SPRING-GREEN LAWN CARE CORP. P.O. BOX 908 NAPERVILLE, ILL. 60566 815 436-8777 WILLIAM R. FISCHER	1977	1977	82	23,000–39,000	PROFESSIONAL LAWN, TREE AND SHRUB CARE SERVICE TO RESIDENTIAL AND COMMERCIAL CUSTOMERS.
TAKE TIME 2520 MELROSE DR. CEDAR FALLS, IOWA 50613 319 266-9930 JERRY LETNEY	1984	1985	3	16,000–18,000	A FITNESS PROGRAM DESIGNED FOR PEOPLE OVER AGE 50 AND THOSE WANTING MODERATE EXERCISE.
TENDER SENDER, INC. 2020 S.W. FOURTH AVE. PORTLAND, ORE. 97201 503 242-1063 MIKE HANNA	1982	1983	54	35,000–45,000	LOCATED MOSTLY IN SUBURBAN SHOPPING MALLS, SHOPS OFFER GIFT-WRAPPING, PACKAGING AND SHIPPING SERVICES TO STORES AND INDIVIDUALS. BEGINNING THIS SUMMER WILL OFFER PICKUP AND DELIVERY.

being deregulated is ripe for franchising."

Many franchise companies now being created pick up on major trends that you are probably aware of, although you may not have stopped to think how you could take advantage of them by starting a business. Barbara Adamek is president and founding partner of Nanny Pop-Ins, a service that provides in-home care for children. "We are basically a service for young urban professionals," she says. "These are husbands and wives who both hold professional jobs and who have decided in their late twenties or early thirties to have children, yet they don't plan to interrupt their dual careers."

Adamek readily admits that the cost of her company's services is not in the price range of every working couple. It is much more costly than group day care, but, she says, "For those couples who can afford it, this is a high-quality service."

Gymboree is another franchise designed to serve the baby boomlet. It offers exercise-oriented classes on special equipment for very young children. Deborah Briggs and her partner, Sharyn Lawall, opened their first Gymboree site in New York City in the spring of 1984, a second center that summer and a third in the fall.

Take Time, a franchised chain of exercise-center programs designed for people age 50 and older, takes advantage of the growing percentage of the population in that age bracket. The company was created by Jerry Letney, a former engineer with John Deere, and his wife, Connie, an experienced exercise and dance instructor. They selected exercise music geared to older tastes, and Connie designed exercise routines that take into account the possibility of aches and pains that a younger generation hasn't yet encountered. The Letneys filled their classes soon after opening the door. Now they are franchising the concept.

You can do some seat-of-the-pants market research that can confirm or raise doubts about the forecasts of the experts. What you see happening in your community could reveal viable business opportunities and those that are iffy. For example, many experts predict a continuing boom in the videotape market. Others see a shakeout coming that could eliminate small operators in this business. As a franchisee of a nationally advertised company in this field, would you be a small operator in danger of collapse or one of the bigs that survive? You might get a sense of the answer by studying the nature of that business in your town.

How to Check Out a Franchise

1. Consult these sources of information on individual franchise companies and the franchising industry in general:

Franchise Opportunities Handbook. Superintendent of Documents, U.S. Dept. of Commerce, Washington, D.C. 20402; $13.50 paperback.

Franchising in the Economy, 1983–1985. U.S. Dept. of Commerce (address above); $4.50 paperback.

International Franchise Association Directory of Membership, 1984–1985. IFA, 1025 Connecticut Ave., N.W., Suite 707, Washington, D.C. 20036; $3.95 paperback. If you ask, the IFA will refer you to advisers or consultants in various areas of franchising.

Is Franchising for You? Learn Before You Buy. Set of six audio tapes. Franchise Learning and Consulting Ctr., 20 Lottingtown Rd., Glen Cove, N.Y. 11542; $89.95.

The 1985 Franchise Annual, Info Press, Inc., Box 550, Lewiston, N.Y. 14092; $22.95 paperback.

The Source Book of Franchise Opportunities, by Robert E. Bond. Dow Jones–Irwin, 1818 Ridge Rd., Homewood, Ill. 60430; $19.95 paperback.

2. Study a number of franchise company offerings. Compare what they offer new franchisees in initial training, continuing assistance, territorial protection as they grow, the rights of franchisee and franchisor to terminate the contract, and your right to sell your franchise. Also pay attention to the business experience of the principals in the company.

3. Get professional advice in narrowing down the field from your accountant, lawyer and insurance agent. Consultants like Robert Kushell and Craig Slavin run evaluation programs for prospective franchisees at prices that typically run from $750 to $1,000. Don't sign any franchise documents until you have your lawyer review them for you and explain any parts you don't understand.

4. In addition to talking to franchisees of companies you are considering, you might even arrange to work, if only for a short time and at no pay, for a franchisee to get a first-hand feel for the business.

5. Consult the franchisor and your bank about how you will put together the cash needed to enter business. Some franchisors will help you finance a portion of the initial capital investment.

AIMING FOR THE REWARDS

One measure of a business's success is the return on investment that it brings the owner on top of a reasonable salary. If you can get just as good a return by putting your investment money in CDs or T-bills, then why take on the hassle of running a business?

Under the disclosure laws governing franchising, a franchise company is not required to give you an estimate of your potential profit. If it does, it must back it up with intricate statistics. As a result, most companies don't make such projections. The best way to get a line on your potential return is to talk to existing franchisees. Estimates of reasonable profit margins for franchised outlets usually range from 10% to 20% before taxes.

When you are investigating a franchise deal, the franchisor will give you names and numbers of current franchisees. Talk to those people. Ask them how much they make and what they have to do to get it.

One analyst notes that, odd as it may sound, some franchisees make too much money too soon. "Then they go on vacations in Jamaica instead of minding the business," he says. Then the business begins to flounder.

Eric Golden isn't about to abandon his Instant Photo franchise and head for Jamaica. He talks of the potential he sees for expanding his operations and is already setting ambitious goals for himself. Before he went into business, Golden had been a salesman for a steel company and a temporary-services firm. "When I saw what I was bringing in for others, I knew what the potential was for earning that for myself," he says. He hasn't been disappointed. ■

ENTERPRISE: Ideas, information and inspiration to help you do business a better way.

How a Company Can Grow through Franchising: A Case Study

Seven years ago, when Julie Brice and her brother, Bill, bought a couple of frozen-yogurt stores to help pay their way through Southern Methodist University in Dallas, they had to learn food retailing from scratch. Today, the Brices have their business degrees, I Can't Believe It's Yogurt is a successful chain with annual gross revenues of about $3.5 million and the two are learning another business—franchising.

With hardly more than a legal seminar and a few brochures to guide them, the Brices have put together a franchising package and licensed 17 independent franchise owners in the past 18 months. Outlets now stretch from Georgia to Arizona.

I Can't Believe It's Yogurt is one of the newest success stories in an industry that has spawned such household names as McDonald's and Kentucky Fried Chicken. According to the US Department of Commerce, franchising is the fastest growing segment of the retail business. In 1983, 1,770 US companies licensed franchisees. This year, the number is expected to hit nearly 1,900. Together, the franchises will ring up an estimated $457 billion in sales of goods and services this year, a 9 percent increase over last year.

"Buying a franchise offers the best opportunity for entrepreneurs that you can find right now," says Department of Commerce analyst Andrew Kostecka, a specialist in business franchises. But franchising also has its pitfalls. For a franchisor, especially, the skills and interests that contribute to success in a particular business may not be enough to branch into this new area.

"You're selling an idea instead of a product," says Julie Brice, 26, "and you're dealing with entrepreneurs, not the general public. Bill and I are learning as we go."

Learning as they go has been standard operating procedure for Julie and Bill Brice since they became entrepreneurs in 1977. At the time, Julie was a sophomore at SMU and Bill, a year older, was a junior. Both wanted to augment their undergraduate studies in business administration with practical management experience.

"We got a job managing two frozen-yogurt stores," Julie recalls. "Then we discovered that the stores were not doing well, and the owner was willing to sell them for a good price."

Julie and Bill took $10,000 from money they and their parents had saved for their college educations to pay for the rocky frozen-yogurt business. Within a few months, they had turned it around. First, they learned the simple things, like the importance of having a friendly staff, and gradually they mastered the intricacies of inventory, cost control and product development. Today, one of those original outlets is their most successful store, grossing almost $500,000 a year, compared to about half that at most other stores.

By the time Julie received her degree in 1980, they had a going concern that was expanding toward their current holdings—14 company stores each ringing up an average of $275,000 a year in sales. Frozen yogurt was becoming more and more popular, and the Brices began to think about franchising, a common way food businesses expand.

WADE IN AND DO IT

According to Julie Brice, they found that franchising was a fledgling industry with few standard practices or well-tested systems that could be adapted to their operation. Although hundreds of companies licensed franchises, each seemed to have built its business through trial and error. Literature on the subject was scarce. Courses were virtually nonexistent. A few seminars conducted by the International Franchising Association, based in Washington, DC, explored the rudiments, but mostly, franchising was a matter of wading in and doing it.

"We attended trade shows in the restaurant industry," says Julie Brice, "and asked franchisors and franchisees all the questions we could think of, but when we started, we had to teach ourselves, mostly."

A franchise industry adviso-

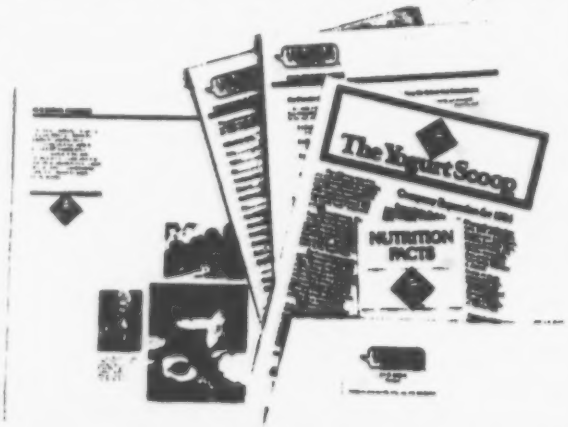
Julie and Bill Brice, the sister/brother team that is marketing frozen yogurt from Arizona to Georgia

Photographs by Holly Kuper

ry council, formed by the University of Nebraska at Lincoln in 1984, is mapping out a comprehensive curriculum that would offer franchising as a major field of study within a business school. In the meantime, the Brices' approach remains the best, according to Kostecka. He does recommend hiring a consultant before branching into franchising, though. A good one, he says, can help business owners decide whether their product is franchisable and what the market ought to be. But he warns entrepreneurs to look into a consultant's background and check references. "The best are retired owners who were successful franchisors themselves," he says.

Julie and Bill Brice worked briefly with a franchise consultant but decided that they really understood their market better than any outsider could. "If we had listened to all the advice we were getting, we never would have tried franchising," Julie says. "Almost everyone told us not to do it, warning us about the lawsuits franchisees filed against franchisors and how risky the business was."

Looking back, Julie offers two reasons for the skepticism. First is the unusual nature of the relationship between franchisor and franchisee. "The franchisor wants to protect his reputation and the quality of his product, so he tells the franchisee how to run his business," says Julie. "But the franchisee is an entrepreneur, too, and doesn't like to be told how to do it. There is built-in conflict."



The Brices wrote away to dozens of companies before deciding on the look of their franchise promotion package.

Second was a cloud that hung over franchising in the early days of the industry when a number of shady operators sold franchise licenses and then gave buyers little or nothing for their money. Lawsuits popped up from Maine to California, and litigation often was long and nasty. A labyrinth of new federal regulations—including several requiring that franchisors' profit claims be documented for prospective franchisees—has curbed abuses and stanched legal action, but doubts linger.

The negative comments were the reason the Brices put off franchising for as long as they did. "We were increasing the number of company-owned stores in Texas," says Bill Brice, "but eventually, we decided franchising was the only sensible way to expand outside this geographic area. We can't effectively manage stores in Nashville or Tucson, but the individual owner-operator can."

Experts in franchising seldom recommend moving outside a geographic region, however. "Staying inside a region or a television broadcast area cuts down on advertising costs," says Kostecka. "And it helps overcome the problems of communication and quality control that arise when you spread yourself across the country."

The Brices heard the experts out and then decided to license owner-operators in Texas, Tennessee, Louisiana and New Mexico. Later, they added sites in North Carolina, Georgia, Colorado, Arizona, Florida, Kansas and Missouri. "We looked for good markets and good franchisees," Julie Brice says. "When we found them, we went ahead." More than any market studies or formal expansion plan, it is this happy serendipity of finding the right franchisee that dictates the growth of the franchise business, Bill Brice says.

Bill Brice gives franchisees a tour of the yogurt factory, explaining every step of the manufacturing process.

With the decision made, the Brices put together an operating philosophy designed to minimize conflicts with independent owner-operators. "We decided early that we would grow slowly," Julie Brice says. "We want to work closely with franchisees, and we want them to make money."

An attorney helped the Brices draft a model franchisor-franchisee contract and comply with federal disclosure regulations in their business prospectus. Still, a mountain of other research was necessary. They sent for franchise materials from dozens of companies.

Relying on their experience in the stores they owned, Julie and Bill decided to charge franchisees $15,000 up front, plus a "royalty" of 5 percent on gross sales. For that, a franchisee would get the benefit of their seven years of experience and the right to use their corporate name, logo, store design, menu and recipes, as well as help with advertising. Locating, building and equipping a store would cost the business owner an additional investment.

"The franchise owner takes all the risk and pays us a percentage," says Julie Brice. "The fee is for the right to use our name. If you think about McDonald's, you can see what the name identification does for a franchisee."

To locate franchisees, the Brices placed postcards in company-owned stores; this was more effective than classified advertising. Later, as the business grew, articles about the business attracted would-be entrepreneurs. "We handpick our franchisees," Julie Brice says. "We've got to like them because we have to work together and know that they won't alienate customers or mismanage employees."

Beyond that, Bill says, the main criteria are that franchisees have business experience "so that they understand management basics," and that they show financial stability. "We don't want somebody to be ruined if the franchise fails."

Julie Brice, president and corporate officer responsible for franchising, or her opera-

tions specialist, Julie Huffaker, approves proposed locations. One of them spends at least one full day exploring a city before licensing a store there.

"You have to figure out people's habits and tastes," Julie Brice says. "Somebody could come to Dallas and put a store a block west of SMU. It looks like a great location, but the store would fail because the kids don't leave campus that way. I try to find out things like that before I approve a particular location."

President Julie Brice keeps track of sales on her personal computer.

Once a location is selected, Brice or Huffaker monitors construction and oversees the installation of the equipment and decoration of the store. They also help set up displays and begin ad campaigns.

Before a new store opens, the franchisee visits company headquarters in Dallas for a six-day training course that covers such subjects as advertising, marketing, bookkeeping, cost control, hiring, firing and even health and nutrition.

"A trainee leaves here with a pile of manuals about ten inches thick," says Bill Brice. "They include all the information a business owner needs to be successful. Of course, if a problem isn't covered in the manuals, we discuss it by telephone or visit the store."

When a franchise is ready to open its doors, Brice or Huffaker works in the store for about a week. This shakedown period gives the new owner on-the-job training and lets employees learn their duties from veterans of the business.

"I was terrifically impressed with the help I got from Julie Brice and her company," says Jimmy Randle, who recently purchased franchise rights for several North Carolina cities and opened his first store in July 1984. "Julie drove around Charlotte with me and pointed out things I would never have noticed. She has worked with me every step of the way."

In Julie Brice's opinion, close cooperation and effective training are the most important elements of successful franchising. "It's our job to help our franchisees build strong businesses," she says. "We teach them our systems for efficient production, quality control, profit-growth, accounting, advertising and purchasing. Most franchisees don't know a lot of these things. Often, that's why they buy a franchise instead of starting from scratch."

Even after the business is up-to-speed, the franchise owner sends financial reports to headquarters every two weeks. Analysts examine them for potential weaknesses. "We might see a faulty pattern of food costs," says Bill Brice. "We will get together with the owner right away so that the difficulty doesn't damage the business."

In addition to financial advice, franchisees benefit from I Can't Believe It's Yogurt's ongoing experiments with new recipes and flavors. The Brices manufacture their brand of frozen yogurt, Softie, in a 20,000-square-foot plant in Dallas. The factory's product-development laboratory also gives the Brices a chance to try out new ideas. Bakers are testing recipes for Crumbles Cookie Kitchen, an experimental store Julie and Bill opened next to their most successful yogurt store—and possibly the start of yet another franchise operation.

—Dennis Holder

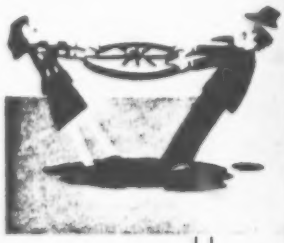
LEGAL PROBLEM SOLVER

Who Owns Employees' Inventions?

One of our employees invented a new process for manufacturing an item our shop produces. The employee claims the right to the invention; we think that we should have all rights to it because it was developed during her employ with us. What claim do we have?

If the employee had, as part of her job description, the duty to develop new processes, then the invention would belong to the company, even if she developed it during nonworking hours or "off-the-premises."

If, on the other hand, the employee made the invention during the course of her regular employment, your company would have a nonexclusive license to use the invention. You would not have to pay her royalties on its use, but she can license others to use it and can procure the patent in her own name.



If either of these cases is a possibility, you should insert a "patent assignment" clause in a staff member's employment agreement. This clause will define your rights to invented items, and compel the employee to disclose all inventions developed during the course of employ and to assign all rights to the company. Many firms offer employees a percentage of royalties from licensing the invention; others award a bonus as an incentive.

Considering the possibilities of valuable discoveries made by employees and the problems in relying on the general principles of law, every company should develop an equitable and binding patent policy. —Arnold S. Goldstein

Arnold Goldstein is a senior partner in a Boston law firm.
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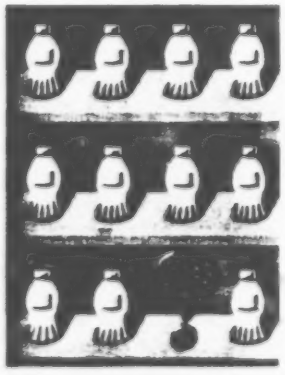
Taking Inventory: 3-Way Tags

If your profits hinge on products, keeping track of them by taking a periodic inventory is essential. Here's why:

- Counting your unsold goods will tell you which products are selling best; then you can drop unprofitable lines and make sure "hot" ones are always kept in stock.
- You must subtract inventory from the cost of goods sold to determine your true profit.
- You need a current assessment of inventories to complete any financial statements you may have to present.
- The IRS requires these figures on your business tax return each year.

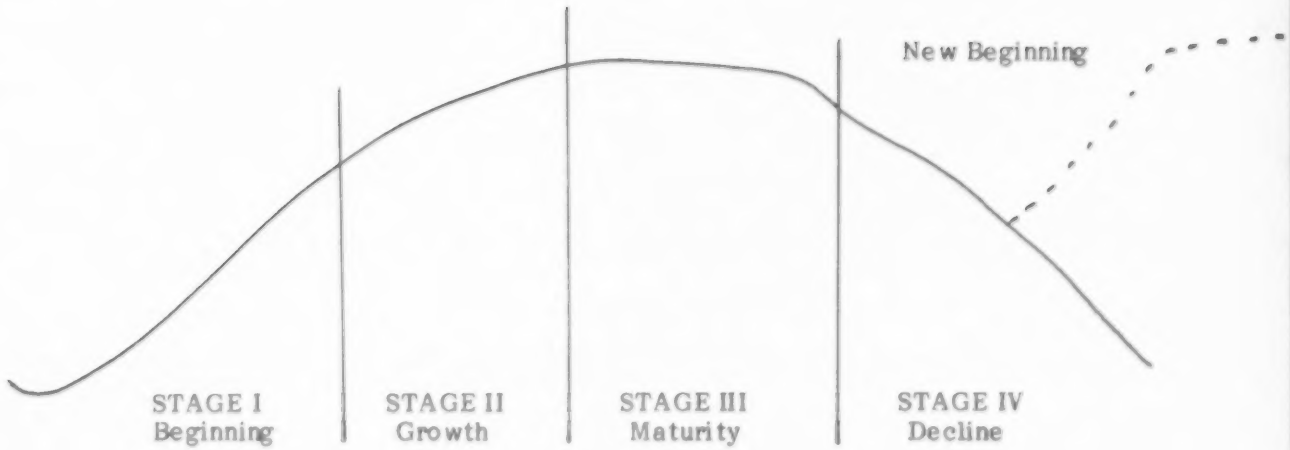


When should business owners take inventory? There's no set schedule, but the beginning and end of your accounting periods are best, so that you can make an accurate comparison

Illustrations by Richard Osato

HANDOUT

LIFE CYCLE OF A BUSINESS OR A PRODUCT



Every business or product follows this cycle. Stage I is the development of a new business or product. As it takes off, there is rapid growth in Stage II. With success comes more competition and market saturation in Stage III. If new products or business practices do not start a new beginning, there is decline in Stage IV.

EVALUATING A PRODUCT

1. Is the product stable or seasonal?
2. Is the product new or obsolete?
3. Is there a proven market for the product in the territory in which you will operate?
4. Is the product untested, speculative or gimmicky?
5. Is the product manufactured by the franchisor or a third party?
6. How strong a reputation has the source?
7. Is delivery reliable/available?
8. Who controls the product price?
9. Is the suggested or projected selling price realistic in light of competitive product conditions and anticipated returns?
10. What is the competition?
11. Are there government standards and regulations governing the product; and does the product meet those standards?
12. Are there government restrictions on the product's use?
13. Are there product warranties or guarantees? Who makes them and who backs them?
14. What is the franchisor's track record on warranty servicing?
15. Are there some planned product line changes?
16. Do the product and the supplier have good reputations?
17. Is the product patented/protected by trademarks or copyrights?

EXERCISE

FRANCHISING AND YOU--EVALUATING A FRANCHISE

Pull selected "Franchise Facts" from the same section in Inc. Magazine that was used earlier in the curriculum guide. Read it and discuss these questions:

1. What is the state of the industry? What is driving it and why is it successful?
2. Would the business fit your personality (see Business Personal Preference list)?
3. Write for this information (KITS):
   - How fast does each respond?
   - How readable are their materials?

Meet with your accountant and attorney.

EVALUATING THE SUCCESS POTENTIAL OF AN INDUSTRY I.E., WHERE IS IT ON THE GROWTH CURVE?

Identify some major trends. How will these trends affect the needs and wants of people? What kinds of markets will be created?

The growth of the two-income family.
The continued push to reduce health care costs.
World terrorism and crime.
The growth of the computer.
The tendency for more and more people to go into business for themselves.
Cable T.V.
The home video recorder.
The push to reduce government spending.
Acid rain.
Satellites.
The population is getting older.
We are on the edge of a second baby boom.
Some people predict the U.S. will face a labor shortage within the next 15 years.
The number of latch-key kids is growing.

Naisbitt, John, (1982), MEGATRENDS, (Ten New Directions Transforming Our Lives), New York, Warner Books Inc. This is THE book as far as learning a concept about change and its potential impact on market conditions. Even though some of the trends described like the movement of the economy to the South have come under serious question, the concept of trend analysis is extremely valuable to anyone who wants to get a better handle on the future.

UNIT IV: EVALUATING A FRANCHISEE—THE FRANCHISOR

Core Idea:

To learn how to evaluate a specific franchisor using expert advice and, eventually, gut feelings about the individual franchise organization. Any franchisor, for example, who promises quick, easy cash ought to be suspect.

Goals:

- To increase participants' ability to evaluate the quality of a franchisor.
- To stress the importance of buying expert advice; to provide ideas on how to shop for advice.
- To present the system used to regulate franchisors; to stress that regulation is a disclosure of numbers and indirectly a measure of the franchisor's business knowledge or integrity.
- To present ideas for evaluating the power of a trademark or service name.
- To stress the key question when buying into a franchise, "What am I getting that I can't provide myself?"

Agenda:

- o Review how the franchisor becomes a franchisor.

- o Distribute and go through the checklists on franchise evaluation.

- o Hand out the questionnaire entitled "Evaluating a Franchise." Ask attendees to fill it out.

- o Invite a panel of speakers--an attorney, an accountant, an insurance person, and a financial planner. Have them describe the services they provide and how they may be able to assist would be franchisees in evaluating a franchisor. Many communities have local bar associations and accounting associations that would be happy to provide speakers. Some may be found who have worked with franchisees. Ask franchisees you know who they have used.

Handouts:

-- A Guide to Expert Advice

-- Selecting a Franchisor--a Decision Matrix

-- Checklist for Evaluating a Franchise

-- Franchising--Your Legal Rights

-- Disclosure Statement Checklist

— Article -- "Franchisors: Have You Hugged Your Franchisor Today?" from Nation's Business

-- Sample franchise agreement

-- Questions for Retailers, Service Businesses and Manufacturers

Homework:

Complete the franchisor "Decision Matrix." Study all franchise materials using checklists provided. Reflect on recent communication with franchisors in terms of their interest in you. Try to determine which ones are interested in YOUR long term interest. Review sample franchise handout.

HANDOUT

A GUIDE TO EXPERT ADVICE

"It is surprising that prospective franchisees are ready to invest $200,000 in a franchise deal but attempt to save $150 by not consulting a lawyer or accountant for help."

Philip Nadeau
Sales Representative
Great Earth International

There are three basic areas in which you may need advice--MONEY, WORDS, and LOCATION. When it comes to money, accountants are your people. It's their job to know if the numbers you receive from the franchisor are reasonable. Be aware, however, that there are very few accountants or attorneys who have worked a great deal with the franchising process. Some accountants have a broad perspective when it comes to business issues, others just sink into the numbers. Accountants come in two basic categories; accountants and CPA's. Certified Public Accountants (CPA's) are just that, certified. They are certified by a national accreditation agency and have had to pass a rigorous test to gain this title. They also have a code of ethics.

Attorneys are word people. They should be able to assist in interpreting the FRANCHISE AGREEMENT and in identifying how the agreement will affect day to day operations.

Insurance people and financial planners will also add much of value to the planning process.

It is important to have good advice. It is important to remember this: ADVICE IS A COMMODITY. It can be bought like you would buy anything else, by looking for the best bargain. Interview prospective advice-givers and try to determine the following factors:

> What is their expertise in terms of your need? Have they worked with the franchising process previously?
>
> Are they the kind of people you want to work with, or do they intimidate you?
>
> Ask for the names of their other clients. Ask your friends for leads. Whom do they work with?

The people who specialize in location are real estate appraisers. You can possibly get help on this from successful developers in your area. Any reliable franchisor will give you assistance with location, but once again, it never hurts to do some of your own research because you are accountable for the final decision.

HANDOUT

SELECTING A FRANCHISOR--A DECISION MATRIX

FACTORS	FRANCHISORS
Give each factor 20 points. Divide the points between commpeting franchisors.	a.
	b.
	c.
Strength of trade or service mark.	d.
Strength of management.	e.
Quality of training programs.	f.
Location analysis.	
Clarity of franchise agreement.	
Comments from other franchisees.	
System success in your region.	

CHECKLIST FOR EVALUATING A FRANCHISE

The Franchise

1. Did your lawyer approve the franchise contract you are considering after he studied it paragraph by paragraph?

2. Does the franchise call upon you to take any steps which are, according to your lawyer, unwise or illegal in your state, county or city?

3. Does the franchise give you an exclusive territory for the length of the franchise or can the franchisor sell a second or third franchise in your territory?

4. Is the franchisor connected in any way with any other franchise company handling similar merchandise or services?

5. If the answer to the last question is "yes" what is your protection against this second franchisor organization?

6. Under what circumstances can you terminate the franchise contract and at what cost to you, if you decide for any reason at all that you wish to cancel it?

7. If you sell your franchise, will you be compensated for your good will or will the good will you have built into the business be lost by you?

The Franchisor

8. How many years has the firm offering you a franchise been in operation?

9. Has it a reputation for honesty and fair dealing among the local firms holding its franchise?

10. Has the franchisor shown you any certified figures indicating exact net profits of one or more going firms which you personally checked yourself with the franchisee?

11. Will the firm assist you with:

    (a) a management training program?
    (b) an employee training program?
    (c) a public relations program?
    (d) capital?
    (e) credit?
    (f) merchandising ideas?

12. Will the firm help you find a good location for your new business?

13. Is the franchising firm adequately financed to carry out its stated plan of financial assistance and expansion?

14. Is the franchisor a one man company or a corporation with an experienced management trained in depth (so that there would always be an experienced man at its head)?

15. Exactly what can the franchisor do for you which you cannot do for yourself?

16. Has the franchisor investigated you carefully enough to assure itself that you can successfully operate one of their franchises at a profit both to them and to you?

17. Does your state have a law regulating the sale of franchises and has the franchisor complied with that law?

You - The Franchisee

18. How much equity capital will you have to have to purchase the franchise and operate it until your income equals your expenses? Where are you going to get it?

19. Are you prepared to give up some independence of action to secure the advantages offered by the franchise?

20. Do YOU really believe you have the innate ability, training and experience to work smoothly and profitably with the franchisor, your employees, and your customers?

21. Are you ready to spend much or all of the remainder of your business life with this franchisor, offering his product or service to your public?

Your Market

22. Have you made any study to determine whether the product or service which you propose to sell under franchise has a market in your territory at the prices you must charge?

23. Will the population in the territory given you increase, remain static, or decrease over the next 5 years?

24. Will the product or service you are considering be in greater demand, about the same, or less demand 5 years from now than today?

25. What competition exists in your territory already for the product or service you comtemplate selling?
    (a) nonfranchising firms?
    (b) franchise firms?

Reprinted from Franchise Opportunities Handbook, U.S. Department of Commerce, Bureau of Industrial Economics and Minority Business Development Agency.

FRANCHISING - YOUR LEGAL RIGHTS

The trade regulation rule issued by the Federal Trade Commission will give you and other prospective franchisees a number of important legal rights under federal law:

1. The right to receive a disclosure statement at your first personal meeting with a representative of the franchisor to discuss the purchase of a franchise; but in no event less than 10 business days before you sign a franchise or related agreement, or pay any money in connection with purchase of a franchise.

2. The right to receive documentation stating the basis and assumptions for any earnings claims that are made at the time the claims are made; but in no event less than 10 business days before you sign a franchise or related agreement, or pay any money in connection with the purchase of a franchise. If an earnings claim is made in advertising, you have the right to receive the required documentation at your first personnel meeting with a representative of the franchisor.

3. The right to receive sample copies of the franchisor's standard franchise and related agreements at the same time as you receive the disclosure statement and the right to receive the final agreements you are to sign at least 5 business days before you sign them.

4. The right to receive any refunds promised by the franchisor, subject to any conditions or limitations on that right which have been disclosed by the franchisor.

5. The right not to be misled by oral or written representations made by the franchisor or its representatives that are inconsistent with the disclosures made in the disclosure statement.

Reprinted from Franchise Opportunities Handbook, United States Department of Commerce, Bureau of Industrial Economics and Minority Business Development Agency.

DISCLOSURE STATEMENTS

If the initial information you receive from a franchisor does not include a disclosure statement (sometimes called an "offering circular" or "prospectus"), be sure to ask for one. It will be a great help in comparing one franchise with another, understanding the risks involved, and learning what to expect and what not to expect from the franchise in which you finally decide to invest. You should study the disclosure statement carefully before making an investment decision.

A Trade regulation rule issued by the Federal Trade Commission requires the nationwide use of disclosure statements. Franchisors are also required by state law in 15 states to provide disclosure statements to prospective franchisees.

The disclosure statment will contain detailed information on some 20 different subjects that may influence your decision to invest or not to invest:

1. Information identifying the franchisor and its affiliates, and describing their business experience.

2. Information identifying and describing the business experience of each of the franchisor's officers, directors and management personnel responsible for franchise services, training and other aspects of the franchise program.

3. A description of the lawsuits in which the franchisor and its officers, directors and management personnel have been involved.

4. Information about any previous bankrupticies in which the franchisor and its officers, directors and management personnel have been involved.

5. Information about the initial franchise fee and other initial payments that are required to obtain the franchise.

6. A description of the continuing payments franchisees are required to make after the franchise opens.

7. Information about any restrictions on the quality of goods and services used in the franchise and where they may be purchased, including restrictions requiring purchases from the franchisor or its affiliates.

8. A description of any assistance available from the franchisor or its affiliates in financing the purchase of the franchise.

9. A description of restrictions on the goods or services franchisees are permitted to sell.

10. A description of any restrictions on the customers with whom franchisees may deal.

11. A description of any territorial protection that will be granted to the franchisee.

12. A description of the conditions under which the franchise may be repurchased or refused renewal by the franchisor, transferred to a third party by the franchisee, and terminated or modified by either party.

13. A description of the training programs provided to franchisees.

14. A description of the involvement of any celebrities or public figures in the franchise.

15. A description of any assistance in selecting a site for the franchise that will be provided by the franchisor.

16. Statistical information about the present number of franchises; the number of franchises projected for the future; and the number of franchises terminated, the number the franchisor has decided not to renew, and the number repurchased in the past.

17. A financial statement of the franchisors.

18. A description of the extent to which franchisees must personally participate in the operation of the franchise.

19. A complete statement of the basis for any earnings claims made to the franchise, including the percentage of existing franchises that have actually achieved the results that are claimed.

20. A list of the names and addresses of other franchisees.

Reprinted from Franchise Opportunities Handbook, United States Department of Commerce, Bureau of Industrial Economics and Minority Business Development Agency.

Franchisors: Have You Hugged Your Franchisee Today?

Lots of them do, every day, as companies search for new ways to make their owners happy—and profitable.

By Robert Justis

PARENT FRANCHISE companies—like any parents—want their franchise children to succeed.

Franchisees—like any growing children—want to be on their own, but they do not want to be abandoned by their franchisors. The heart of the franchise idea is independence within a proven format, being on your own but with a support system.

The franchise industry is developing innovations constantly to get support from the home office out to franchisees. Medicine Shoppe International, a pharmacy chain, offers free medical screening exams to encourage customers to come into franchises. U.S. Electronics Group is among several franchisors that will offer centralized accounting services. Others, like Merry Maids and Namco Tel-A-Systems, have incentive programs (Namco sends top franchisees to the Super Bowl).

A number of franchisors are creating networks among their franchisees so they can share solutions to common problems, and the sharp growth of networking is one of the major developments in franchising today. Help starts from the beginning and is what gives the franchise method its strength.

Bob Beard was working in the marketing department of United Technologies and casting about for a business of his own. Banks in Palm Beach, Fla., where he wanted to go into business, would not give him a business loan because he had no experience in retail. But, says Beard, "They would change their idea if I had franchise backing."

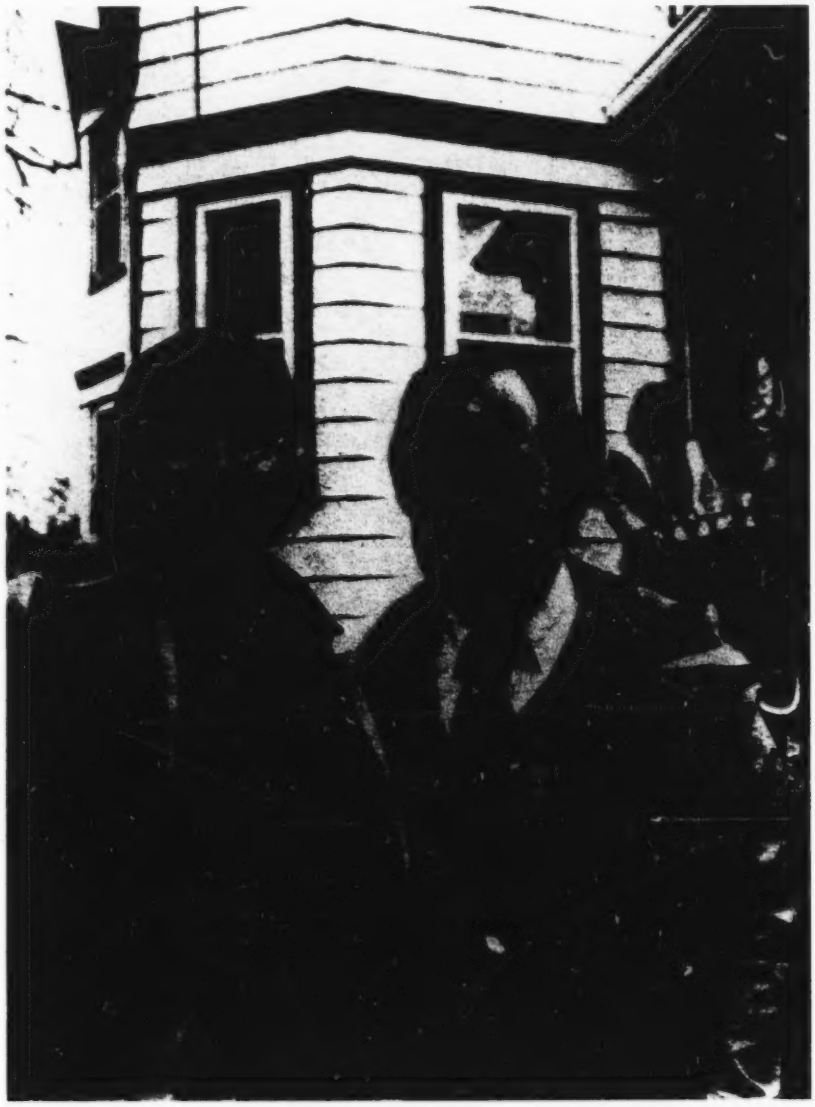
He decided on a franchise from Phone Source, Inc., in Omaha. Phone Source sells telephones to homes and businesses, installs lines and repairs phone equipment. It has been, Beard says, a success.

"I had no experience in retail or telephones. I had a good market, customers, enthusiasm, ambition and a little money. Phone Source helped with site location, store layout, inventory, market research. They saved me a lot of trial and error."

Paul and Evy Hatjistilianos held teaching jobs in the Boston public school system, but dreamt of financial independence and what Paul calls "the great potential of owning our own business."

ROBERT JUSTIS, *a professor of management, is executive director of the Franchise Studies Program at the College of Business Administration, the University of Nebraska-Lincoln.*

PHOTO: T. MICHAEL KEZA



Paul and Evy Hatjistilianos left teaching jobs to start a Merry Maids franchise; now they gross over $300,000 a year.

PHOTO: T. MICHAEL KEZA

William Van Loan says the franchise council of Headquarters Companies "is the voice of the franchisee to the parent."

PHOTO: RANDY HAMPTON

Don Everett, president of Runza Drive Inns, finds his franchise advisory council gives good advice about adding new menu items.

Evy's cousin, Dallen Peterson, was president of Omaha's Merry Maids, Inc., a professional home cleaning service with more than 200 franchises.

In a visit they made to his lakefront home in London, Minn., Peterson explained to the Hatjistilianoses the advantages, structure and operations of a franchise in Merry Maids.

Like the Phone Source, Merry Maids is a turnkey operation. It provides intensive training at headquarters, with emphasis on a business plan and on developing skills in marketing, management, accounting, purchasing equipment and supplies, and choosing territories.

In short, Merry Maids would provide the business format. What Paul and Evy would bring was the desire and the willpower to be a success.

They were not convinced at once, but a year and a half later, in 1982, Paul and Evy Hatjistilianos opened their first Merry Maids outlet in West Roxbury, Mass. They now have three and are grossing more than $300,000 a year.

But their connection with the main office has not been severed. Far from it. Merry Maids provides a whole range of services typical of the industry, from franchise advisory councils to marketing programs, equipment and product evaluations, regional and national meetings and seminars, centralized computer services, and award programs.

Many of these programs are managed through the franchise advisory councils, or FACs. For Paul Hatjistilianos, this is one of the most attractive parts of being a franchisee. It provides a link to the home office and among the individual franchisees.

"Most of our problems have an immediate solution," says Paul, "based upon Merry Maids' experience and the experiences of other owners."

FACs are founded for a number of reasons and are structured in as many different formats as there are franchise companies. They may have started at the initiative of the company or arisen from the unifying concerns of separate unit owners. They may meet at the expense of the corporation, or else be independently financed by membership dues.

They are a formalized way of coordinating the relationship between individual units and a franchise's corporate parent.

MERRY MAIDS appoints an FAC made up of coordinators of 10 geographic regions. Coordinators, says Paul Hatjistilianos, call regional meetings to offer marketing and service ideas. He has served as a regional coordinator and as president of an elected group in his region, the New England Association of Merry Maids Franchise Owners.

"The council works very well," says Evy Hatjistilianos. It is not just a one-way organization, but exists to answer questions by owners. "Sometimes we go through the regional representatives, and sometimes we use the direct 800 number" to headquarters, she says.

Merry Maids is expanding its services, says Paul Hatjistilianos. It now has a national newsletter and will be holding a conference this month for owners who average $5,000 a week or more in sales, to review and discuss business experiences with an eye to sharing those with all the franchise owners.

Franchisors can gain a great deal from the owner organizations, from reactions to new products and services, to practical advice on marketing targets.

San Francisco-based Headquarters Companies, a wholly-owned subsidiary of United Technologies, has what it calls the Headquarters Advisory Resource Council, with six elected officers.

Each of Headquarters' 64 franchises leases office space and shared office services to executives who do not need to maintain full offices for themselves. For professionals or regional managers of large companies, says William Van Loan, owner of three Headquarters franchises in the Boston area, the cen-

ters provide, in effect, a permanent office for an executive without the expense and trouble of maintaining separate secretaries, telephone services, word processing and duplicating machines, and storage space. They can also provide specialized services that would ordinarily be available only to very large offices, by sharing them among many customers.

Van Loan, a former vice president for marketing of Coca-Cola, serves as one of the six officers of the Headquarters council.

The main office, Van Loan says, provides the usual range of services to its franchisees, and a few more. One is a national sales force, which will visit large firms that may need office space for regional managers and will suggest an appropriate franchised Headquarters center.

In turn, Headquarters receives advice from its council.

"One of our roles," says Van Loan, "is to be the voice of the franchisee to the parent company. The other is to help the company in its planning. Communication goes both ways. We help them learn what is going on in the real world and coordinate plans among the franchisees." The result, says Van Loan, is that the company does not have planners planning "in an ivory tower."

FACs may provide a full range of services and programs to members or can be strictly limited in the scope of their concerns. Whatever the particulars of an FAC, it is clear they serve to enhance the franchise form of doing business.

MANY FRANCHISORS' FACs are established according to the framework suggested by the International Franchise Association, the industry's representative body in Washington. The franchise relationship, says Jim Trethewey, president of IFA, "is virtually like no other business arrangement, because the franchisor and franchisee literally need one another in order to compete successfully in the marketplace. With that in mind, the IFA has consistently worked towards providing its members with educational programs and seminars to assist franchisors in addressing the needs of franchisees." The IFA's "How To Organize a Franchisee Advisory Council," published in 1979, provides a step-by-step approach to creating and operating an FAC.

John Dean, president and CEO of First Interstate System, Inc., a wholly-owned franchise subsidiary of California's First Interstate Bancorp, says advisory councils usually form when a franchise operation reaches a "critical mass."

How big critical mass is may be a matter of some debate. Randy Strunk, president of Phone Source, asked Bob Beard to set up an FAC for the company, although it has only five units, with two more scheduled to open in a few months.

Runza Drive Inns of America, a sandwich shop franchisor in Lincoln, Nebr., started an FAC after opening its fifth unit. Among other agenda items, President Don Everett finds the council invaluable for developing, testing and adopting (or eliminating) menu items.

First Interstate plans to set up its FAC sometime this year. Although only eight bank franchise agreements have been signed, and six implemented, the combined franchise assets approach $4 billion. That means, Dean says, "We're franchising established, large, ongoing firms. This often involves negotiations between two large organizations. Historically, that's not typical of franchising," where the usual franchisee is a single entrepreneur.

Other franchise advisory councils exist, Dean says, to educate the franchisees, but he sees his council as a way to keep open communications regarding strategic directions, in terms of market segments and product development in financial services. It will give continual feedback about issues and concerns confronting his constituents.

The idea for the First Interstate Bancorp FAC originated at the central office. The group will meet three or four times a year, with council members initially being appointed and thereafter elected by the members.

Another franchisor in the early stages is Dave Hayes, owner and founder, with his wife, Stella, of Hayes Personnel Services of Colorado Springs, Colo. The first franchise unit of Hayes opened last month in Pueblo, Colo.

Hayes Personnel Services has been successful since the couple began it in 1980; it has grown to $4.5 million in gross sales from one office. It provides services in four areas—permanent and temporary hiring, executive recruiting and consulting and training.

New franchisees are chosen with care and begin operations in one of the four areas—usually permanent place-

What a Franchisor Must Offer

To those who can satisfy the basic franchise requirements of financial capability and demonstrated desire for success, the franchisor should offer certain opportunities and tools. The potential franchisee should check to make sure that the following items are offered by the franchisor:

1. A federally registered trademark, and a state registered trade name.

2. A reliable, affordable product or service.

3. The strength of a national network of independently owned and operated franchises adding strength to, and gaining support from, each other.

4. A complete training program for both the franchisee and the franchisee's staff. It must provide hands-on experience in every operation of the business.

5. A detailed and readable operations manual, which will guide the franchisee through startup and well into successful operations.

6. Support, with plenty of elbow-to-elbow involvement, for the franchisor and his staff on everything from site selection to decor, inventory and grand opening ads.

7. Managerial training, including regional and national meetings and seminars, and assistance in operations and accounting procedures.

8. Marketing, merchandising and advertising support—everything from selecting retail decor and display ideas to setting up co-op advertising assistance.

9. Monthly newsletters to keep the operators informed of the latest activities and trends affecting the business and industry, keep tabs on the competition and feature the successful efforts of different franchise operators.

10. Store or territorial expansion with possible development of a multi-store operation in your city or area of the country.

11. Unique exterior and interior designs that invite and draw customers into the franchise location.

12. A continuing program of new product development and testing.

13. Operational and managerial advice to the franchisee.

14. Purchasing benefits from the franchisor, who will assist in obtaining items, or buy products in volume and pass the advantages of such buying on to the franchisee.

—Robert Justis

ments, Hayes says—and then expand to the others as they gain experience.

Hayes expects his critical mass, the point at which he will begin his FAC, to be three franchises and the main office.

Richard de Camara, of de Camara Auto Service in Elmhurst, Ill., knows all about FACs. He used to be chief executive officer of Midas Muffler before retiring in 1982 and buying the first of his six Midas shops.

He says the Midas organization went through a "fairly typical syndrome" when dealers first joined together by themselves to represent their interests in a corporate restructuring in the early 1970s.

Midas started its own dealer advisory committee in 1972 and paid all its expenses for travel and meetings, until the membership decided to support the FAC entirely by membership dues. Midas now has an outstanding record of exceptional franchisee relations, says de Camara.

The Midas FAC recommends guidelines in computerizing the company network of 1,600 U.S. shops. It makes group health and liability insurance available and makes efforts to improve franchisee productivity with periodic incentive contests.

Another automotive service franchisor, 280-unit Precision Tune, of Beaumont, Tex., finds training programs to be a paramount FAC concern. "Because of the technological nature of our business," explains President Les Hatcher, "we need a consistent way to deliver educational services to franchisees."

Hatcher says Precision Tune's FAC has led the company to modify basic services, change the corporate training programs and improve communication and input from licensees through council channels.

RUSSELL FRITH, president of Lawn Doctor, describes his President's Advisory Council as "modeled after the U.S. Senate" and operated in accordance with IFA recommendations. Elected representatives from each of the company's 10 regions meet semiannually. During sessions, the group divides into five subcommittees to consider membership, advertising, image, service and equipment matters.

The nationwide ice cream chain, Bresler's 33 Flavors, headquartered in Chicago, also developed its FAC according to IFA standards, says Joe Marley, the company's vice president in charge of franchise development.

Bresler's 420 ice cream stores feature 33 different flavored specialty ice cream cones, hand-packed ice cream, yogurt and soda fountains that make ice cream specialty items to order.

Bresler's FAC considers matters such as advertising, new product introduction, training and technology and availability of store locations.

The FAC that Hayes Personnel Services sets up will also be primarily concerned with advertising and marketing, says Dave Hayes. The company will set aside 2 percent of franchisees' royalties in a special fund, and the FAC will decide how to use the money.

Valentino's Italian Restaurant, a franchisor in Lincoln, Nebr., calls its FAC an advertising council, since promotion and marketing is currently its major concern. As the chain expands, the council will assume functions such as training, financing and coordination of new construction.

Moto Photo, headquartered in Dayton, Ohio, is a one-hour photo processing franchise offering high quality rapid photo processing services on location. Started in 1981, the company has more than 140 franchises. It conducts extensive research to define its customers and make the results available and useful to franchisees.

The company provides awards for its top franchisees, including manager of the year, franchisee of the year and most creative promotion.

The main innovations channeled through FACs include expanded services to franchisees. Often, such services are recommended by council members, as they are on the front lines of the business. It is obvious that such councils are a primary ingredient for the franchising success recipe.

The Franchise Studies Program at the University of Nebraska is tracking the evolution of FACs and emerging trends that affect them.

For the future, expect further refinement of franchise guidelines for operations.

Franchising advisory councils will help institute strategic plans and point the direction for future success and growth of franchise organizations. With a dynamic advisory council, franchises will remain in the forefront of American business, by combining the advantages of individual ownership with group planning advisory boards. NB

To order reprints of this article, see page 65.

What a Franchisor May Offer

Franchisors are providing many services for franchisees. Among the most innovative:

Medicine Shoppe International, Inc., of St. Louis, offers free medical screening examinations for customers of their franchise stores, says Jeff Atkinson, president. Tests are for high blood pressure, diabetes, glaucoma, and colon and rectal cancer, among others. Atkinson says Medicine Shoppes will soon be offering a program called "Thumbuddy Misses You," a fingerprinting ID service for children. Such programs, says Atkinson, bring higher traffic to the 500 Medicine Shoppes. "We cannot insist that our customers get sick," says Atkinson, so the company finds ways of serving customers better.

The company also provides more than 200 private label medicines to franchisees, which have substantial profit margins and sell for lower prices than national and other private brands.

U.S. Electronics Group of Denver, a franchisor of home electronics centers, selling audio and video equipment and computers, is setting up a computer network that will give unit owners access to its mainframe computer and accounting packages. It will also be providing computerized newsletters, bulletins and an information center.

Namco Tel-A-Cover Systems, Inc., sends several of its top franchisees to the Super Bowl, as a way of enhancing motivation. Namco, based in Natick, Mass., markets plastic covers with advertising for telephone books, and has 75 franchises. Arthur Sells, president of the firm, says motivating a franchisee "is entirely different from motivating an employe," because the franchisee is an entrepreneur and has different goals. One way Namco measures a top franchisee is his or her willingness to help other franchisees who may need it.

Sheraton Corporation will cooperate with American Airlines to give a guest staying at a Sheraton franchise bonus points in the carrier's travel incentive program. That will encourage frequent fliers on one of the nation's busiest airlines to stay at Sheraton hotels.

Merry Maids offers a comprehensive insurance program to franchise owners and awards of from $4,000 to $12,000 to top sales producers.

—Robert Justis

EXERCISE/HOMEWORK

To be used in Session IV.

THE FRANCHISE AGREEMENT

Goal:

To understand how the franchise agreement affects day-to-day operating procedures.

Read a franchise agreement. Have the student read the agreement and then be tested on it--can's and cant's (i.e. what you can and cannot do under this agreement, when will you be violating it, when won't you be violating it). Base the test on an actual contract and how it is actually violated.

Secondary Goal:

To help participants see the world from the franchisor's point of view--why maintaining the integrity of the franchisor is so important.

NOMDA® SAMPLE
DEALER SALES AGREEMENT

THIS AGREEMENT, made this _____ day of _____, 198___, by and between

_____, a _____ corporation having a principal place of
(Manufacturer's Name) (State)

business at _____, _____, _____,
(Street) (City) (State, Zip Code)

(hereinafter called "Manufacturer"), and _____, a(n) (individual) (partnership)
(Dealer)

or (corporation organized under the laws of the State of _____), doing business as _____,

_____ with a principal place of business at _____,
(Street)

_____, _____, (hereinafter called "Dealer").
(City) (State, Zip Code)

WITNESSETH:

In consideration of the mutual covenants herein contained, IT IS AGREED as follows:

(1) The purpose of this Agreement is to promote the development of the market for the Manufacturer's products and the long-term good will of the Dealer through the manufacturer's sale to the Dealer of reliable products to be sold, installed, and serviced by the Dealer to the satisfaction of the end user.

(2) The Manufacturer and Dealer agree that throughout the term of this Agreement and in the interpretation of this Agreement, they will act in a fair, equitable, and ethical manner to each other as well as to the end user.

(3) The Manufacturer and Dealer agree that the proper servicing and installation of the Manufacturer's products is most important to the promotion and development of the market for the Manufacturer's products and the long-term good will of the Dealer.

(4) This Agreement applies to Manufacturer's full line of _____ products
(Product Line)
which may be expanded from time to time by the Manufacturer who shall, upon introduction of a new product within this product line, immediately offer same to Dealer for sale and service.

(5) Manufacturer hereby appoints the Dealer as an (exclusive, non exclusive) authorized retail dealer of Manufacturer's products from the authorized sale and service locations of:

_____, _____, _____
(Street) (City) (State, Zip Code)

_____, _____, _____
(Street) (City) (State, Zip Code)

within the geographic area of (exclusive) primary responsibility of:

wherein Dealer is capable of servicing and installing Manufacturer's products.

(6) Manufacturer shall sell and Dealer shall purchase Manufacturer's products and parts therefor as set forth in Paragraph (4) hereof at the current published dealer price minus applicable discounts at the time of placing order. For a minimum of twelve (12) months or until the expiration of any service contracts for manufacturer's products, whichever period is longer, Manufacturer agrees that following the termination of this Agreement it will continue to sell Dealer parts, schematics, and reference manuals at the then current dealer prices.

(7) Manufacturer and Dealer shall mutually establish fair and equitable standards of performance. Such standards shall reflect the actual manufacture and sales of Manufacturer's products, the potential of the area, the special circumstances of the Dealer and other office machine dealers in its market area. Manufacturer and Dealer may mutually revise such standards annually as conditions may require. Manufacturer and Dealer represent that Schedule A attached hereto and made a part hereof is in accord with the standards of this paragraph and have been assigned on a non-discriminatory basis.

(8) Manufacturer and Dealer agree that the Dealer's ability to properly service and install Manufacturer's products is a primary basis for the entry of this Agreement. Dealer shall maintain adequate sales and service facilities, maintain adequate inventories and insure that his employees receive proper sales, service and installation training. Manufacturer agrees to provide timely service training to Dealer and his employees.

(9) The Dealer shall act in a fair, equitable and ethical manner to the Manufacturer and end-user. Manufacturer shall act in a non-discriminatory, fair, equitable, and ethical manner during the course of this Agreement and in terminating this Agreement. In any review by an Appeal Board pursuant to Paragraphs (15), (16) and (17) hereof and in any legal proceeding affecting this Agreement and the relationship established by it, the burden of proof shall be upon the Manufacturer.

(10) Manufacturer shall give the Dealer _____ days prior notice of any price change and shall reimburse the Dealer for the amount of price reductions for those products in inventory within _____ days of the effective date of such reduction.

(11) To protect the end user and promote good will, the Manufacturer will provide a warranty in conjunction with the sale of products to the Dealer. In the event that a Dealer sells any product for use outside the area where Dealer can adequately provide installation and warranty service, Dealer shall immediately make appropriate arrangements to have such installation and warranty service provided by another authorized dealer. Dealer shall pay such other dealer an allowance for installation and warranty service of _____ percent (_____ %) of the then current suggested retail price of the product sold. This allowance is designed to give the recipient dealer reasonable compensation for installation and warranty service to be performed, and acknowledges the importance of service and installation to the end user in conjunction with every sale. Dealer agrees to provide installation and warranty service for products sold by others for use within its territory, subject to Dealer's receipt of the appropriate allowance herein provided. Said allowance may be revised by Manufacturer from time to time as circumstances dictate.

(12) This Agreement does not have any expiration date. However, Manufacturer may terminate this Agreement by written notice to the Dealer by registered mail, return receipt requested, effective ninety (90) days from the receipt of the notice if the Dealer fails to substantially comply with the provisions of this Agreement and has not made a reasonable effort to comply with the provisions of the Agreement upon notice of said deficiency.

(13) Manufacturer may also terminate this Agreement by written notice to the Dealer by registered mail, return receipt requested, effective ten (10) days from receipt of the notice if the Dealer becomes seriously delinquent in the payment of any undisputed account, becomes insolvent, makes an assignment for the benefit of creditors, or files or has filed against it a valid petition in bankruptcy. For purposes of this paragraph, "seriously delinquent" shall mean _____ days or more.

(14) The Dealer may terminate this Agreement by giving Manufacturer _____ days' written notice.

(15) The Dealer may request a review of a notice of termination by an Appeal Board, by addressing such request in writing by registered mail, return receipt requested, to the Manufacturer and to the National Office Machine Dealers Association, 810 Lively Boulevard, Wood Dale, Illinois 60191, within thirty (30) days of the receipt by the Dealer of any notice pursuant to Paragraphs (12) and (13).

(16) The Chairman of NOMDA's Manufacturer/Dealer Relations Committee shall first attempt to resolve the dispute through the cooperation of the Manufacturer. If the Chairman is unable to resolve the dispute within sixty (60) days, then the Appeal Board shall be composed of one arbitrator chosen in accord with the rules of the American Arbitration Association. Notice of the hearing is to be given to the parties hereto in writing by registered mail, return receipt requested, addressed to said parties at the addresses herein set forth. All arbitration proceedings shall be conducted in accord with the rules of the American Arbitration Association at the Branch of the American Arbitration Association closest to the Dealer's authorized location.

(17) (a) If the Appeal Board finds in writing that the termination was in accord with this Agreement, the termination shall become effective as of the original effective date of termination and the Dealer shall pay the fees and expenses of the Appeal Board:

(b) If the Appeal Board finds in writing that the termination was not in accord with this Agreement, then Manufacturer shall pay the fees and expenses of the Appeals Board:

(c) During the pendency of any Appeal Board hearing between the parties hereto, Manufacturer agrees not to appoint another dealer within Dealer's geographical area of responsibility, or to interrupt the delivery of Manufacturer's product, supplies, parts, or reference materials to Dealer.

(18) In the event of termination of this Agreement, Manufacturer shall repurchase at Dealer's option all unused in box inventory of Manufacturer's products and parts at the price paid by Dealer at time of purchase.

(19) This Agreement constitutes the entire agreement, and supersedes and cancels all previous agreements.

(20) This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective legal representative, successors and assigns. Any transfer by the Dealer must be approved in writing by the Manufacturer; however, such approval shall not be unreasonably withheld by the Manufacturer.

(21) The Manufacturer's name and trademark are registered in the United States. No Dealer shall have the right to use this name and trademark without the written consent of Manufacturer. In the event of termination of this Agreement, Manufacturer has the right to withdraw this consent.

(22) This Agreement shall be governed by the laws of the State of _____ ; wherever possible each
(Name of State)
provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall not invalidate the remaining provisions of this Agreement.

DEALER:	MANUFACTURER:
_____	_____
By: _____	By: _____
Title: _____	Title: _____
Date: _____	Date: _____

QUESTIONS FOR RETAILERS

- Will the zoning laws allow me to operate a retail business at this site?
- Is there ample parking for my customers?
- Is there ample parking for my employees?
- What types of businesses surround my store site?
- Will the businesses nearest mine help bring customers into my store?
- Is there pedestrian traffic passing my door each day?
- Are the pedestrians potential customers?

QUESTIONS FOR SERVICE BUSINESSES

- Will the zoning laws allow me to operate a service business on this site?
- Do I need to pay high rent to serve my clientele?
- Will other businesses in the area naturally draw customer attention to my location?
- Does my business require parking for customers and employees?
- If yes, is the site adequate?
- Is the site convenient for me to reach my customers?

QUESTIONS FOR MANUFACTURERS

- Will the zoning laws allow me to operate a manufacturing plant on this site?
- Are there loading docks already built into the building?
- Can truck or train traffic approach the building with ease?
- How close is this location to the source of my raw materials?
- Is the site convenient for me to reach my customers?
- Is the site close enough to the airport for my business?
- Are there any special restrictions that might affect my business operation (i.e. noise, pollution control, water restrictions, etc.).

UNIT V: THE FRANCHISEE—FRANCHISOR RELATIONSHIP

Core Idea:

Success for the franchisee and the franchisor depends upon developing and maintaining a relationship. The core of this relationship is a legal document. The franchise agreement is weighted heavily on the side of the franchisor. It is important for the franchisee to see the world from the point of view of the franchisor. The long-term successful relationship will be more than a legal document; it will be a mutual understanding. To get off to a good start it is imperative that the franchisee fully understand what she or he is getting into. All commitments must be spelled out in the franchise agreement.

Goals:

- To help participants identify factors that enhance a long-term positive relationship between franchisor and franchisee.

- To make participants aware of the various parts of a franchise agreement.

- To enable participants to read a franchise agreement and understand how the wording in the agreement affects day to day operations.

- To present to participants the concepts of franchise associations and franchise advisory councils.

Agenda:

- Introduce this session as one in which you will be working together to increase understanding of the relationship between franchisee and franchisor.

- Discuss why franchisors go into the franchise business (to grow fast and make money) and what it takes to make a franchise a success (uniformity).

- Have the participants form small groups to discuss the franchise agreement they were provided at the end of the last session. Have them discuss how the agreement would affect their day to day operations--what they can and cannot do.

- Have an attorney talk about the agreement. Have him discuss the same agreement from his point of view. Provide plenty of time for questions.

- Invite a franchisor representative to speak next. Some of the larger franchises (Wendy's, McDonald's) have regional representatives. Have them come and describe their jobs and how they work with franchisees.

Handouts:

- Franchisee Rights and Franchise Agreements
- Tips for Developing and Maintaining a Positive Franchisee/Franchisor Relationship
- Legal Do's and Dont's
- How to Analyze a Franchise Agreement

Homework:

Participants should continue to study the area of franchising that interests them.

HANDOUT

FRANCHISEE RIGHTS AND FRANCHISE AGREEMENTS

Franchise agreements may take away rights you would ordinarily have. The following franchise rights should be either granted or preserved by the agreement.

THE RIGHT TO:

1. Require that the franchisor act in a fair and equitable manner.
2. Receive an automatically renewable or long-term agreement, terminable only upon proof of just cause.
3. Have fair and equitable standards of performance that take into account special circumstances.
4. Be advised on the basis of quotas and the precise computations used.
5. Receive equitable and nondiscriminatory allocations.
6. Receive full statement of all alleged deficiencies.
7. Be given an adequate period of time to cure alleged deficiencies.
8. Transfer or sell the business.
9. Transfer the business to the franchisee's heirs.
10. Relocate the facilities within the franchisee's designated sales area.
11. Not have other franchisees appointed in certain areas, except under prescribed circumstances.
12. Receive full reimbursement for all warranty services at retail rates.
13. Organize an independent franchise advisory council.
14. Appeal to a special company board of appeals on matters of importance.

15. Receive at least 120 days' notice of termination.

16. Appeal termination to an impartial appeal board.

17. Require the franchisor to have the burden of proof in all proceedings.

18. Receive on termination or nonrenewal:

    a) the right to sell the franchise, subject to the franchisor's approval

    b) adequate compensation for damages and lost future profits

    c) adequate compensation for losses on leased or owned real property

    d) the right to return produce, parts, etc., plus handling costs

Hammond, Alexander. Franchisee Rights — (A Self-Defense Manual). Greenvale, N.Y.: Panel Publishers (1979), pp. 34-36.

HANDOUT

TIPS FOR DEVELOPING AND MAINTAINING A POSITIVE FRANCHISEE/FRANCHISOR RELATIONSHIP

Conduct your research on the industry and the regional market for your particular franchise idea.

Know yourself, and what it means to be a franchisee. Is it for you? Does it meet your goals?

Avoid franchisors who promise a fast easy buck.

Deal with franchisors who:

- are realistic in their assessment of profits
- seem to have long-term commitment
- are not forcing you to act
- and who carefully assess your skills, abilities and energy

Read the franchise agreement and understand how it will affect your day to day freedom to manage.

Clarify expectations regarding the kind of assistance you will receive from the franchisor.

Use expert advice at the beginning, but remember you are the final decision maker. It is your money that is involved!

Keep records of all correspondence with the franchisor.

Keep communication lines open at all times. Don't be afraid to talk to someone and test the assumptions you are making. If you are having trouble, talk to someone as soon as possible.

Continue to develop your management and supervisory skills. These skills can take a lifetime to develop, and doing so can pay big dividends. No franchise operation can relieve you of this responsibility. Your success depends on continuous learning and development.

HANDOUT

LEGAL DO'S AND DONTS

Don't sign anything you haven't read first.

Do ask for explanations of anything you don't understand.

Do assume that what is said in a contract binds you to it no matter how ridiculous it may seem.

Do remember that every franchise agreement is a product of a negotiation and is therefore negotiable.

Do keep a file of all correspondence with the franchisor.

Don't sign anything until you have consulted an attorney.

Do analyze the franchise agreement to determine what it prevents you from doing.

Do remember that the franchisor cannot, under Federal law, require you to buy anything you do not want to buy.

Do remember that you have the right to set your own prices.

Don't sign any agreement that prevents you from selling your franchise to a qualified buyer.

Do remember that, for the most part, the law protects you and enables you to be treated fairly and compete freely. This means you can decide what to price your product, and you have the right to buy your supplies from whomever you please.

Do remember that, in the case of a concept franchise, you are buying management "know how", so stay open to suggestions.

Do check out the qualifications of any experts you use such as attorneys. Franchising is a specialized field so you may have to look around in order to find people who are experienced in it.

HANDOUT

HOW TO ANALYZE A FRANCHISE AGREEMENT

What is the basis for terminating the agreement (just cause)?

How are differences of opinion settled?

How are you to be notified of deficiencies?

What is the process to correct deficiencies--how much time is provided?

UNIT VI: SUPERVISION

Core Idea:

The area that can bring considerable problems to the franchisee is the day-to-day supervision of people. This day-to-day freedom is what attracts the franchisee to becoming a franchisee, and it is the one area in which the franchisor is the least helpful. This topic will be a part of the franchisee training program, but we all know it is the key to business success and needs constant attention. All we can do in this session is to make the participants aware of how important this skill is, and share some basic supervisory concepts.

Goals:

- To develop the notion that when all is said and done the success of any enterprise, even one as well thought out as a franchise, depends on one's ability to work effectively with people--both customers and employees.

- To discuss the following people management concepts:
  - How to hire effectively
  - The importance of orientation
  - Why feedback is so very critical
  - How to execute a meaningful performance appraisal

- To discuss time management and why we sometimes have problems with it.

Agenda:

- Discuss the importance of building relationships with people. Point out that having a satisfied work force will create a productive work force. Get the point across that employees are also customers and relatives of customers. Many franchisees will be working with younger and part-time people. What are the implications of this?

- Discuss effective hiring. Stress the importance of listening during the interview. Develop an interview guide or checklist to help obtain the information you need.

- Discuss the importance of feedback. Emphasize that one should always tell employees how well they do what they do. Stress the importance of being specific and of catching people doing things correctly. This particular concept is from the book THE ONE MINUTE MANAGER (see bibliography).

- Discuss time management. Stress the importance of a "to do" list. Ask the question, "Why do some people have trouble managing their time?" Discuss the idea that time management is largely a process of setting priorities and being willing to stick with them.

Handouts:

-- Employee Training Checklist.

-- Planning For a Performance Appraisal.

-- Sample Employee Performance Appraisal.

-- Rules of Effective Criticism.

-- Do's and Dont's of Performance Appraisal.

Films, Etc.:

-- THE ONE MINUTE MANAGER--This video tape is of a lecture by Dr. Kenneth Blanchard, co-author of the book by the same name.

EMPLOYEE TRAINING CHECKLIST

To determine if your employees need training, ask yourself the following questions:

- Do your employees need to improve their job skills?
- Is the quality of their work high?
- Do your employees have a positive attitude?
- Can your employees make decisions on their own or do they need to be backed up?
- Do your employees need to increase their capabilities before you can promote them?
- Can your employees operate the new equipment that you have?
- Do your employees understand new procedures you have instituted?
- Have organizational changes altered the nature of the work your employees do?

RESULTS OF TRAINING YOUR EMPLOYEES

They become more satisfied with their ability to perform.

Their skills in assignments increase.

They have a better chance for promotion.

They have a better idea of what is expected of them.

They return with renewed enthusiasm and are motivated to increase productivity.

HOW YOUR COMPANY BENEFITS FROM TRAINING EMPLOYEES

They return to work with renewed enthusiasm.

They bring new ideas back with them.

You need fewer personnel.

Your new employees work up to par in a shorter period of time.

You can develop a flexible work force.

Adapted from Small Business Management: A Practical Approach by Daniel J. Sullivan and William C. Brown. Dubuque Iowa: Brown Company Publishers, 1977.

PLANNING FOR A PERFORMANCE APPRAISAL

Check your performance appraisal with the following checklist:

A. What tools do I need for the appraisal?

____Job Description ____Incident File ____Rating Form

____Specific Objectives ____Performance Standards

B. What changes do I want to accomplish in this employee?

Attitude_____

_____

Productivity_____

_____

Effectiveness_____

_____

C. GOALS: Write at least one sentence on how to meet these goals during the appraisal:

1. Increase rapport with the employee._____

_____

2. Fully communicate what is expected of the employee on the job.

_____

3. Increase the employee's understanding of how the job is important in relation to the whole organization._____

_____

4. Review (both supervisor and employee) the job description, performance standards and objectives. Discuss whether the employee is working within the guidelines stated in these documents. Do they need to be updated or changed?_____

_____

5. What changes in direction (if any) must the employee make to meet objectives and the job description?_____

_____

D. Schedule the performance appraisal with your employee several days in advance. Make sure it is convenient for your employee if at all possible.

E. Inform your employee on how you want him or her to prepare and what will be expected. Take position description, objectives, responsibilities and/or agreed upon projects, and evaluate performance.

IMPORTANT: Answer these three questions for the employee:

- How am I doing?
- What are my major skills and abilities?
- Where do I go from here?

HANDOUT

SAMPLE EMPLOYEE PERFORMANCE APPRAISAL

Name_____ Date of Hire_____ Date of Review_____

Department_____ Job Title/Grade_____

Instructions: Use this form to evaluate the performance of all employees on their regular review as scheduled by personnel policy. Part I should be completed by the employee and part II by the immediate supervisor. Be sure that the current job description has been reviewed prior to completing this evaluation to insure accuracy of the description and a complete understanding of the job. Performance evaluation and subsequent counseling are an important part of a supervisor's responsibilities, and merit serious thought and prompt attention. Upon completion of this form, the employee and supervisor should discuss and sign the evaluation.

PART I: EMPLOYEE

1. Briefly describe your duties and responsibilities during the period covered by this evaluation.

2. Evaluate your performance of these activities. Where can improvements be made by you? What have you accomplished since your last review?

3. In order to improve your performance in your present position and/or to prepare yourself for the future, what help, training, assistance, or materials do you need?

4. List the specific job-related goals you have set for yourself. State your plans for accomplishing them prior to your next review.

5. Name areas you would like to be considered for as your abilities develop.
   Immediate _____

   Long-Range _____

6. Additional Comments: _____
   _____
   _____
   _____

PART II: SUPERVISOR

1. Has the employee stated current duties and responsibilities correctly? If not, explain.

2. Comment on the employee's acceptance of responsibility, the ability to learn and follow directions, judgement and dependability. How many months has he or she been in the present position?

3. Comment on aspects of employee job performance that emphasize technical knowledge and competency, quality and quantity of work, and accuracy.

4. Discuss the employee's accomplishments of previously established goals or discussion items requiring attention.

5. Describe this employee's best area of performance.

6. Describe those areas of job performance that need more attention to achieve greater effectiveness.

7. What are you doing to help the employee become more effective?

8. Comment on the nature of the employee's ability to work and get along with supervisor(s), co-workers, and customers.

9. Do you consider this employee to be well placed in this particular job? Why? If not, what alternatives would you suggest?

10. If this employee has shown the capacity for increased responsibilities, reassignment, or promotional consideration, what specific position(s) or general areas should be considered?

Position/General Area	Salary Grade Level	Readiness (in months)

11. Considering the employee's personal habits, relationships with others, technical competency on specific assignments, and with proper consideration for the period of time covered by this review, provide an overall rating of job performance for this employee. Check the appropriate rating box below. Explain your response.

__Inadequate __Marginal __Acceptable __Competent __Commendable __Distinguished

Explanation: _____

_____

_____

THE ABOVE EVALUATION HAS BEEN REVIEWED WITH MY SUPERVISOR.

_____ _____

Signature of Supervisor/Date Signature of Employee/Date

HANDOUT

RULES OF EFFECTIVE CRITICISM

- Concentrate on behavior, not just attitude. Make sure it is behavior that can be seen. Substantiate the situation, e.g., you were 15 minutes late for work in the last three years.

- Criticize as soon as possible after a mistake has been made. You can be more precise in describing the situation, and the employee can remember what happened more clearly. There will be less chance of recurrence. Early criticism will reduce tension and anxiety (especially if the individual knows he or she has done something wrong and anticipates criticism).

- Be specific when criticizing, and stay on the subject. Don't get sidetracked by justifications or sad tales. Managers sometimes add other criticism onto the original. For example, "This isn't the only time you..." Don't give the employee a litany of problems. Stick to the problem at hand.

- Get the employee's agreement. Spell out the problem so that the employee knows exactly what it is. Once you and the employee agree that a problem exists, you can both look for solutions.

HOW TO TELL PEOPLE ABOUT THEIR WEAKNESSES

- Discuss the employee's strong and weak points.
- Concentrate on ways to improve.
- Get the employee's opinion about the cause of performance problems.
- Avoid a "build-up, shoot-down" situation. "You're great, BUT..."

  Why? You may lose your credibility on the good points.
- Discuss the employee's weak points as they relate to performance results.
- Help the employee to understand how his or her level of performance affects the business as a whole.
- Let the employee know that you have confidence in his or her ability to improve.
- Let the employee know that you are available to assist as needed.

HANDOUT

DO'S AND DONT'S OF PERFORMANCE APPRAISAL

YOU SHOULD DO THE FOLLOWING:

1. Reassure your employee by building on strengths; give the employee confidence.
2. Use a "we" attitude when discussing problems.
3. Be specific when discussing performance.
4. Keep the interview on track.
5. Draw out the employee by: Asking thought-provoking questions (not yes/no type); then listen. Restate or reflect upon the employee's statements. Listen with warmth, frankness, and real interest.
6. Talk about job results, not activities.
7. Function as a coach, not as inspector. Counsel--don't advise.
8. Close conversation properly: Summarize; plan for improvements and changes; write down the results.

YOU SHOULD NOT DO THE FOLLOWING:

1. Use negative words or too many negative criticisms.
2. Use a "you vs. me" attitude.
3. Give insincere or excessive praise.
4. Use generalities that cannot be backed up by specific examples.
5. Dominate the conversation.
6. Emphasize personality traits.
7. Be fussy, petty, or harried.

KEYS TO BUSINESS SUCCESS FOR BEGINNERS

- Don't plunge in--give yourself 6 months to study before proceeding.
- Try to stay within your own field of knowledge.
- Consider the rate of return as you would with any investment.
- Learn to use expert advice.
- Clarify your motives--Don't start a business to run away from a boring job—start one for its own sake.
- Seek out devil's advocates--ask people to criticize your plan.
- Don't be a perfectionist--there is something wrong with every business. If you wait too long to make a decision, you may miss rare opportunities.

Willis, Clint, "Minding Your Own Business," Money, (June, 1984), pp. 93-100.

TO FRANCHISE OR NOT TO FRANCHISE

	Create a Business	Buy a Business	Franchise
Delay before business becomes profitable.			
Image for the marketplace.			
Reduces learning curves			
Freedom to create image.			
Mutual capital outlay.			

HANDOUT

QUESTIONS TO HELP YOU PLAN

1. What will I achieve and receive from this business a year from now, five years from now?
2. Where is the market for my product or service?
3. Who are my customers?
4. Who are my competitors and what are they doing?
5. Considering my competition and customers, what is the best sales strategy for me to use ?
6. What merchandising methods should I use?
7. How much money do I need to operate my business?
8. How should I allocate the money for the operation?
9. How is the work accomplished?
10. What management controls must I use?
11. How do I use these controls?
12. Where can I go for help?
13. What information do I need daily, weekly, monthly, and annually?

Adapted from Small Business Management: A Practical Approach by Daniel J. Sullivan and William C. Brown. Dubuque, Iowa: Brown Company Publishers, 1977.

HANDOUT

BASIC PLAN OUTLINE

A. Goals for my enterprise are:
   1.
   2.
   3.

B. Ways to accomplish each goal are:
   1.
   2.
   3.

C. Dates on which I expect to accomplish each goal are:
   1.
   2.
   3.

D. Problems I may encounter are:
   1.
   2.
   3.

E. Actions I can take are:
   1.
   2.
   3.

F. Suppliers and other sources of help are:
   1.
   2.
   3.

Adapted from Small Business Management: A Practical Approach by Daniel J. Sullivan and William C. Brown. Dubuque, Iowa: Brown Company Publishers, 1977.

HANDOUT

MANAGERIAL TRAITS QUIZ

This quiz is designed to help you think about traits that a manager needs to have in order to attend to different kinds of persons and situations. Mark each question as quickly as you can under "agree" or "disagree."

SECTION I

Agree	Disagree		
___	___	1.	When an employee flares up at you, the employee should always be corrected quickly and vigorously.
___	___	2.	A good argument once or twice a day helps me to blow off steam.
___	___	3.	Honest people reveal their feelings about other people.
___	___	4.	It is a good idea to let people know when you are angry with them.
___	___	5.	It is terribly irritating to work with people who are slow to catch on.

SECTION II

Agree	Disagree	
___	___	1. A good manager needs to be on the job every day to see that everyone gets their work done properly.
___	___	2. A real leader knows each job better than anyone else.
___	___	3. Good managers do not allow their orders or suggestions to be questioned.
___	___	4. A good manager will spend a large share of time issuing orders.
___	___	5. My employees should show me deference and respect.

SECTION III

Agree	Disagree	
___	___	1. Quick decisions are the best decisions.
___	___	2. Decisions on grievances and disciplinary action should never be changed.
___	___	3. Managers should never change their minds or alter their orders.

Agree	Disagree	
___	___	4. My enthusiasm for a project often goes from hot to cold and vice versa.
___	___	5. The first impression about an individual should be the lasting impression.

SECTION IV

Agree	Disagree	
___	___	1. My ideas are usually not as good as the next person's.
___	___	2. I can never get an idea across very well.
___	___	3. I just don't feel comfortable sticking my neck out with a new idea.
___	___	4. Most people get more satsifaction from the boss' praise for a job well done than from the satisfaction of the job itself.
___	___	5. I always secure advice before taking action on a new project.

SECTION V

Agree	Disagree	
___	___	1. The best jobs should be given to those who are good to you.
___	___	2. I hestitate to discipline someone who becomes defensive and argues.
___	___	3. If an action is contrary to policy, a worker's explanation is unnecessary.
___	___	4. It is always bad for my business when a competitor gets one of my better employees.
___	___	5. If a manager is at fault, the manager should get the blame.

Reprinted from Topics in Small Business Management, Volume I, Second Edition, by Richard Hodgetts and Pamela Keel. Kendall/Hunt Publishing Company, 1982.

HANDOUT

QUIZ INTERPRETATION

SECTION I—CALM AND COLLECTED

A person may be too quick on the trigger, if he or she checked "agree" on most of the five questions. In other words, the person's "managerial blood pressure" may be a little high.

On the other hand, the person who checked "disagree" on most of the questions is probably fairly cool and has a lower boiling point than some of the rest of us.

SECTION II—EGOTISM

The person who "agreed" with most of the statements may have ego trouble. One way to avoid this is to focus attention on the job to be completed and on ways of helping others to complete it.

SECTION III—PATIENCE

If a person checked "agree" on most of the five statements, he or she may be inclined to jump to conclusions. He may make snap judgements rather than giving adequate time to get all the facts necessary for making a sound decision.

SECTION IV—SECURITY

A majority of "agree" checks indicates that the person has doubts and fears about his/her own effectiveness. These doubts affect work quality.

SECTION V—FAVORITISM

If you agreed with the answers, watch out. No management weakness is more quickly sensed by the working group than that of playing favorites. No weakness will cause more friction among employees than lack of fair play.

Reprinted from Topics in Small Business Management, Volume I, Second Edition, by Richard Hodgetts and Pamela Keel. Kendall/Hunt Publishing Company, 1982.

FRANCHISE AGREEMENT — A PARTIAL CHECKLIST

- Can you sell or transfer your franchise rights?
- What advertising and promotion will there be (who pays for what)?
- What continuing management assistance will you receive?
- Is your territory exclusive? If it grows do you have first refusal option or additional franchise in the territory?
- Are there sales' quotas?
- What must you purchase from the franchisor in the way of supplies?
- What are the facility and equipment controls (can you be required to remodel or buy new equipment)?
- Under what conditions and on what terms may the agreement be terminated?

EXERCISE

FRANCHISE AGREEMENT

Goal: To understand the implications of a franchise agreement.

Process: Have a sample agreement, then have a series of actions. Do they or do they not violate the agreement?

This could be an individual or group exercise. Bring in a lawyer to discuss and interpret. Use an actual franchise with real problems (i.e. the McDonald's contract).

FRANCHISING: OUTLINE

I. WHAT FRANCHISING IS:

- A. A right or privilege
- B. Singer, the first franchise
- C. Product Franchises
  1. Standard Oil
  2. Automobiles
- D. Concept Franchises:
  1. McDonald's
  2. Burger King
- E. Why franchising has grown:
  1. Interstate Highway System
  2. Television Advertising
  3. Push by people to enter their own businesses

II. IS FRANCHISING FOR YOU?

- A. What being a franchisee means:
  1. Managing your own business
  2. Operating within the franchise rules
- B. Evaluating yourself:
  1. Your health/energy
  2. Your experience in business
  3. Education/skills
  4. Learning capacity
  5. Temperament
  6. Financial Status

C. Why you want to be a franchisee:

1. To earn a lot of money quickly
2. To be your own boss
3. To have more freedom

D. Assess your business management skills:

1. In supervising people
2. In managing the physical resources
3. In managing yourself, your time, stress

E. Do you have the support of your personal system?

F. Can you work within the type of controls which are often the part of a franchise?

III. SHOPPING FOR AND SELECTING A FRANCHISE:

A. Matching your personality with the right franchise:

1. Service Business
2. Product Business

B. Evaluating a product:

1. Is it stable or seasonal?
2. Is it new or obsolete?
3. Is there a proven market for it in the territory in which you will operate?
4. Is the product untested, speculative, or gimmicky?
5. Is the product manufactured by the franchisor or a third party?
6. How strong and reputable is the source?
7. Is delivery reliable and available?
8. Who controls the product price?

9. Is any suggested or projected selling price realistic in light of competitive product conditions and anticipated returns?

10. What is the competition?

11. Are there government standards governing the product and does the product meet those standards?

12. Are there government restrictions on the product's use?

13. Are there product warranties or guarantees? Who makes them and who backs them?

14. What is the franchisor's track record on warranty servicing?

15. Are there some planned product line changes?

16. Do the product and supplier enjoy superior reputations?

17. Is the product patented--protected by trademarks or copyrights?

C. Evaluating the industry in general:

1. Is the franchise product or concept in a growth area?

2. Have you studied the industry yourself?

3. Does the industry prosper or have potential to prosper in your area?

D. Evaluate trademarks and copyrights.

IV. EVALUATING THE FRANCHISOR:

A. How long has the franchisor been conducting business in the industry?

B. How long has it granted franchises for the business?

C. Is the company in other branches of business?

D. In the franchise system:

1. How many franchises?

2. How many company-owned stores?

E. How to tell if the franchisor has a long-term interest:

1. Is he careful in checking your qualifications?

2. Does he appear to be moving quickly to get the initial fee?

3. Is adequate time offered to study the contract before signing?

4. Will they provide a list of other franchisees for you to talk with?

F. Has the franchisor been involved in any litigation in the past?

1. Convicted of a felony?

2. Declared bankruptcy?

V. CHECKING OUT THE FACTS:

A. Trademarks and Copyrights:

1. Verify all trademarks and trade names to make sure they are the ones you think they are.

2. If the trade name involves a well-known person:

a. Is he or she active in the business?

b. Does he have a financial interest?

c. What is the duration of the licence to use the name?

B. What is the duration of patents and copyrights involved in the franchise?

C. The Franchise Kit

1. Are their profit projections realistic--using an accountant here is a must.

2. Will the profit picture be the same in your part of the country?

VI. THE FRANCHISE AGREEMENT:

A. Know the meanings of these words:

1. Initial cost
2. Total cost
3. Royalties
4. Cash required
5. Down payment
6. Equity investment
7. Continuing regular fee

B. Training:

1. Is it required?
2. What is the nature of training?
   a. What are the costs and who pays them?
   b. What is the location of training?
3. Does it include training of employees?
4. Will supplementary training be available to cover supervisory turnover? Is such training required, if so how is it paid (initial franchise fee, periodic service fee, royalty)?

C. Start-up Assistance:

1. Assistance by the franchise personnel at the outlet.
2. Does it include:
   a. Supervision of equipment layouts?
   b. Preopening promotions?
3. Once again, how will it be paid for?

VII. SELECTING AND USING EXPERTS

A. Selecting and Using Accountants

1. Why an accountant is essential

2. What an accountant can and should do

B. Selecting and Using Attorneys

1. Why an attorney is so important

2. A lawyer is not a lawyer is not a lawyer (?)

C. Buying professional advice could be the best dollar you ever spent.

VIII. MARKET RESEARCH:

A. Why you need to know about market research

B. Sources of market information

C. How to do it yourself

IX. BUSINESS PLANNING:

A. Why business plans are essential

B. The elements of a business plan

C. How to get over the fear of writing a plan

SOURCES OF INFORMATION ON FRANCHISES

Small Business Administration
Office of Business Development
1441 L Street, N.W.
Washington, D.C. 20014

Federal Trade Commission
Bureau of Enforcements
6th St. & Pennsylvania Ave., N.W.
Washington, D.C. 20580

Council of Better Business Bureaus, Inc.
1150 17th Street, N.W.
Washington, D.C. 20036

International Franchise Association
1025 Connecticut Avenue, N.W.
Suite 1005
Washington, D.C. 20036

Dunn and Bradstreet
(for credit analysis)

"Franchising Today"
a Trade magazine

Luxenberg Stan. "How the Chains Franchised America," Roadside Empire. New York: Viking Penguin, Inc., 1985.

Seigel, William Laird. "Franchising," Wiley Small Business Series. New York: John Wiley & Sons, Inc., 1983.

Department of Commerce Publications

Publications in the Data User Series may be ordered from the Superintendent of Documents, Customer Services, Data User Series Division, Bureau of the Census, Washington, D.C. 20233

- Business Statistics Data Finder, $ .50.
- Economic Surveys Division Data Finder, $ .50.
- Industrial Statistics Data Finder, $2.50.
- Foreign Trade Statistics Data Finder, $ .50.
- Government Statistics Data Finder, $ .50.
- Construction Statistics Data Finder, $ .50.

The U.S. Census Bureau publishes censuses of population, manufacturing, retail trade, agriculture, construction, government, housing, mineral industries, selected service industries, transportation, and wholesale trade. All are available at your local public library.

County Business Patterns, U.S. Department of Commerce, Bureau of the Census, available from each state.

THE FRANCHISE WORKSHOP
LEADER'S GUIDE

LETTER TO LEADERS

INTRODUCTION

Workshops differ from what is commonly known as a "course" because a workshop is a "one shot deal." Workshops are also generally shorter than a course in the amount of time allowed to cover a wealth of material. As a result, the workshop leader has a greater burden than a course leader. There is less time to adjust the course design to fit the students' expectations. The successful workshop creates a psychological learning contract between leader and learner, then carries out that contract. This franchise workshop is derived from a 15-hour course designed to be spread over a five week period. The bottom line goal of the workshop is to interest the participants in studying the topic further.

WORKSHOP LEADERSHIP

The first rule for successful workshop leadership is to create a positive learning climate and clarify the expectations of the participants. You, as workshop leaders, have limited time to answer the questions of the workshop participants, and you cannot assume that your agenda matches those questions. Consequently, you have a critical time management task. To help you manage your time wisely, have the participants write down why they are attending the workshop and what they expect to gain from it. From their answers you should:

1. Learn what the most important areas of interest are for this group and how to set your priorities accordingly, and
2. Demonstrate to everyone that the group has many interests and too much time cannot be spent on any one person's agenda.

ABOUT THIS PACKAGE

This package contains enough material for either a half or a full day workshop. The material is taken from the AACJC trainers manual on franchising. The manual contains additional material such as articles which have copyright approval so you may distribute them. The manual may contain additional materials that you may also want to use.

FULL DAY

Goals

(See goals for half day program.)

To further explore the role of franchisee.

To increase participant awareness and understanding of the nature of the franchisee/franchisor relationship.

To present the various parts of the franchise agreement.

To review how franchises are regulated at the national, state and local level.

Agenda

(See agenda for half day program.)

PANEL DISCUSSION—At some point during the day, preferably right after lunch, introduce a panel of local people experienced in franchising. A successful franchisee, an unsuccessful franchisee, a franchisor. Ask these people to share their experiences: What have they learned? What do they like and dislike about being a franchisee?

THE FRANCHISOR--Explore the world of franchisors. Why do they franchise their business ideas? What is needed to develop a successful franchised business? What is the reasoning behind the rules they establish?

FRANCHISEE/FRANCHISOR RELATIONSHIP--Using the handout "Tips for Developing and Maintaining a Positive Franchisee/Franchisor Relationship" discuss what is required to make the relationship successful. Stress that a successful relationship is much more than a legal document.

THE FRANCHISE AGREEMENT--Discuss the various parts of the agreement and what to look for, such as the termination clause, notice requirements, equipment buy-backs, how deficiencies are handled, etc.

THE REGULATION OF FRANCHISES--Go over the state and federal regulation of franchises. Stress the federal goal of free trade as protected by the Sherman Anti-Trust Act, the Clayton Act, and the Robinson-Pateman Act. Review disclosure requirements and stress the point that disclosure is not the only measure of franchise quality. See handouts on this topic.

INTRODUCTION TO FRANCHISING
A ONE DAY WORKSHOP FOR PROSPECTIVE FRANCHISEES
TIME LINE

8:30 am - 9:00 am	Registration
9:00 am - 9:15 am	Workshop Introduction and Needs Assessment
9:15 am - 9:45 am	Overview on the history and concept of franchising. HANDOUTS: "The Great Franchising Boom" "Franchising Landmarks"
9:45 am - 10:15 am	Distribute pre-test and have participants think about and respond to the items. Distribute "What's Your Motive" and have them think about this also. Discuss the points raised by these articles.
10:15 am - 10:30 am	Break
10:30 am - 11:00 am	"How Does a Franchisee Differ from an Entrepreneur?" Discuss how the role of a franchisee differs from that of an employee or an independent business owner. Focus on the question, "How does a franchisee differ from an entrepreneur?" Also, hand out the article from Changing Times: "Franchising: The Strings Attached to Being Your Own Boss."

11:00 am - 12:00 pm	"Market Research" and "Outside Counseling" Discuss the importance of conducting research, particularly market research. Also, stress the importance of using outside counseling. Use the following handouts as a focus for discussion. Franchising Resource Guide Market Information Resources Outline of A Marketing Plan
12:00 pm - 1:00 pm	Lunch--depending on lunch arrangements, use some of this time to set up appointments with class members for individual discussion.
1:00 pm - 2:00 pm	"Analyzing the Franchise Product Industry" Use the following aids as a focus for discussion: "Life Cycle of a Business or Product" (visual) "Evaluating the Success Potential of An Industry" Discuss a couple of samples from Venture Magazine's "Franchise Facts" column. Raise questions on where a particular industry may be heading. Is it appropriate for all regions of the country?
2:00 pm - 3:00 pm	"Evaluating a Particular Franchisor" Distribute and discuss "Checklist For Evaluating a Franchise." Prepare this as a transparency and go over it point by point.
3:00 pm - 3:15 pm	Break
3:15 pm - 4:00 pm	"The Franchisor/Franchisee Relationship" Hand out and discuss "Tips for Developing and Maintaining a Positive Franchisee/Franchisor Relationship." This can also serve as a good wrap-up for the day.

INTRODUCTION TO FRANCHISING
HALF DAY WORKSHOP
TIME LINE

8:30 am - 9:00 am	Registration
9:00 am - 9:15 am	Introduction to the Workshop and Needs Assessment.
9:15 am - 9:45 am	Overview—History of franchising and the concept of franchising. Handouts "Franchise Facts", "Comments on Franchising", "Landmarks in Franchising", and "Franchising Terms." Use visuals on the franchising concept.
9:45 am - 10:15 am	Distribute pre-test and discuss.
10:15 am - 10:30 am	Break
10:30 am - 11:00 am	"How a Franchisee Differs from an Employee of an Independent Business Owner" Discuss how a franchisee differs from an employee or an independent business owner. Hand out and discuss chart comparing the various roles entitled "How to Go Into Business." Other handouts you can use are "Franchising--What Is Your Motive?": and "Franchising: The Strings Attached to Being Your Own Boss."

11:00 am - 11:30 am	"Research Techniques" Discuss what needs to be researched and tips on how to do it. Hand out Franchising Resource Guide and Using Expert Advice. Discuss and stress the importance of using advice.
11:30 am - 12:00 pm	"An Overview of the Franchise Agreement" Stress the importance of careful study in this area of the Franchise Agreement. Handouts: "Tips for Developing and Maintaining a Positive Franchisee-Franchisor Relationship", "Legal Do's and Dont's", "How to Analyze a Franchise Agreement", and "Franchisee Rights and Franchise Agreements."

SUGGESTED GOALS FOR A HALF DAY WORKSHOP

HALF DAY GOALS

A brief history of franchising.

The franchise concept.

What skills, values, and attitudes you need to be a successful franchisee.

HALF DAY AGENDA

Introduce yourself and give a broad overview of the workshop (i.e. how much time is available, how you plan to proceed in terms of student involvement). Perhaps you could state that there may not be time to answer all participants' questions but you will be available after the session.

Ask participants to introduce themselves and state what they would like to get out of the session. Write these down. Reserve time at the end to go over those that were not covered during the session.

Give a presentation on the history of franchising and present the franchising concept as compared to other ways of going into business. Make a transparency of the "Comments on Franchising." The latter can be used to generate discussion.

Hand out the franchising pre-test and ask participants to give the questions some thought.

Discuss this question: In what ways is the role of the franchisee unique from that of the entrepreneur or the employee? Attempt to generate some discussion and thought on this.

Present an overview of the kinds of things one should research before entering into a franchise relationship and how to go about conducting the research.

researching an industry
researching a particular franchise
researching a specific regional market
how to work with your reference librarian

Stress the point that entering a franchise differs from starting your own business. Franchising is buying into an established concept. When you start your own business you work your way from the ground up. In a franchise you are probably investing a considerable amount of money in one person's idea. The franchisee is the one who takes 99 percent of the risk in this situation so taking time to conduct research and USING EXPERT ADVICE is critical.

Go over any unanswered questions listed during the first part of the session.

HANDOUT

TIPS FOR DEVELOPING AND MAINTAINING A POSITIVE FRANCHISEE/FRANCHISOR RELATIONSHIP

Conduct your research on the industry and the regional market for your particular franchise idea.

Know yourself, and what it means to be a franchisee. Is it for you? Does it meet your goals?

Avoid franchisors who promise a fast easy buck.

Deal with franchisors who:

- are realistic in their assessment of profits
- seem to have long-term commitment
- are not forcing you to act
- and who carefully assess your skills, abilities and energy

Read the franchise agreement and understand how it will affect your day to day freedom to manage.

Clarify expectations regarding the kind of assistance you will receive from the franchisor.

Use expert advice at the beginning, but remember you are the final decision maker. It is your money that is involved!

Keep records of all correspondence with the franchisor.

Keep communication lines open at all times. Don't be afraid to talk to someone and test the assumptions you are making. If you are having trouble, talk to someone as soon as possible.

Continue to develop your management and supervisory skills. These skills can take a lifetime to develop, and doing so can pay big dividends. No franchise operation can relieve you of this responsibility. Your success depends on continuous learning and development.

HANDOUT

LEGAL DO'S AND DONT'S

Don't sign anything you haven't read first.

Do ask for explanations of anything you don't understand.

Do assume that what is said in a contract binds you to it no matter how ridiculous it may seem.

Do remember that every franchise agreement is a product of a negotiation and is therefore negotiable.

Do keep a file of all correspondence with the franchisor.

Don't sign anything until you have consulted an attorney.

Do analyze the franchise agreement to determine what it prevents you from doing.

Do remember that the franchisor cannot, under Federal law, require you to buy anything you do not want to buy.

Do remember that you have the right to set your own prices.

Don't sign any agreement that prevents you from selling your franchise to a qualified buyer.

Do remember that, for the most part, the law protects you and enables you to be treated fairly and compete freely. This means you can decide what to price your product, and you have the right to buy your supplies from whomever you please.

Do remember that, in the case of a concept franchise, you are buying management "know how", so stay open to suggestions.

Do check out the qualifications of any experts you use such as attorneys. Franchising is a specialized field so you may have to look around in order to find people who are experienced in it.

HANDOUT

HOW TO ANALYZE A FRANCHISE AGREEMENT

What is the basis for terminating the agreement (just cause)?

How are differences of opinion settled?

How are you to be notified of deficiencies?

What is the process to correct deficiencies--how much time is provided?

FRANCHISING LANDMARKS*

A Brief History of Franchising

1850's I. M. Singer & Co. established the first dealer system. The company used the system as a method for distributing its sewing machines. By using franchising they were able to establish a national sales force with very little capital. The idea worked initially, but failed over the long run due to lack of control over the company.

1898 General Motors initiated a successful licensing system thus establishing a dealer system to sell its steamers.

1899 Coca-Cola started selling the rights to bottle Coke. Coke was initially sold only in drug stores. The license to use the new packaging idea--bottles--was granted to bottlers with the provision that they not compete with soda fountain sales. Their first franchise agreement was 600 words long.

1925 Howard Johnson borrowed five hundred dollars and bought a money-losing drug store in Quincy, Massachusetts. He sold his first franchise in 1929.

1930 Standard Oil began leasing stations to managers.

1948 Ray Kroc began selling McDonald's franchises.

1952 Holiday Inn was established.

1955 Dunkin Donuts was established.

1957 McDonald's had 37 outlets.

1958 AAMCO transmissions were established.

THE KENTUCKY FRIED CHICKEN STORY

1955 Interstate 75 destroyed Harland Sander's restaurant business (he is 62 years old).

1956 Sanders decides to try and sell franchises. He is getting $105 a month on Social Security -- he needs the money.

1960 Sanders has sold 200 franchises and is earning $100,000 a year.

1963 Kentucky Fried Chicken has 600 franchises and earns $300,000 a year for Sanders.

Kentucky Fried Chicken ultimately created over 100 millionaires.

*This summary extracted from Roadside Empires by Stan Luxenberg. New York: Viking Penguin Inc., 1985.

HANDOUT

UNIT V

ANTI-COERCION AND ANTI-TERMINATION FILE

From a strictly legal point of view, here are some factors to consider when dealing with franchisors.*

1. Understand your legal rights.

2. Keep EVERY document received from the franchisor.

3. Have officers or key employees present at all important meetings with franchisor.

4. Prepare full notes of meetings with franchisor.

5. Keep dated records on important subjects:

   a. Pricing policies
   b. Unfair quotas
   c. Requirements that slow-moving products be purchased to obtain more saleable ones
   d. Requirements to purchase accessories, parts or supplies
   e. Requirements relating to contributions and reimbursements for cooperative advertising
   f. Favored treatment of other franchisees
   g. Pressure tactics, threats, coercion or other heavy-handed treatment
   h. Unfair locations

6. Request a written explanation of computation of unfair sales quotas.

7. Request a written explanation of new requirements which fundamentally affect your business.

8. Consult with your attorney before litigation becomes necessary.

9. Increase your strength by joining with fellow franchisees and trade associations.

10. Do not agree to or sign documents containing unfair quotas and requirements or unfair statements of deficiencies.

11. Do not panic if you feel at a disadvantage with the franchisor.

12. Do not lose your temper and make threats on the spur of the moment.

*From: FRANCHISEE RIGHTS -- A Self-Defense Manual (For Dealers, Distributors, Wholesalers and Other Franchisees) by Alexander Hammond. Greenvale, N.Y.: Panel Publishers, 1979, p.28.

VISUALS

THE WORLD OF FRANCHISING: This visual is designed to provide an overview of where franchising fits within the context of business. Franchising exists within a specific industry and the success of a franchise depends upon the success of a particular industry. Radio Shack is given as one example of a combination franchise which franchises only its products in some markets and its entire concept in others.

THE FRANCHISEE: A franchisee plays a special role. The nature of this role needs to be understood by anyone wanting to be successful as a franchisee. This visual is designed to show where the franchise fits between the models of entrepreneur and employee. It stresses the trade off between security and risk.

THE BUSINESS LEARNING CURVE: When buying a franchise one is buying experience and image; two qualities that may take years to develop on ones own. The trade off is, of course, dependence on those who have learned it on their own.

FRANCHISE RESEARCH GUIDE

You are the one responsible for conducting research in the area of franchising in which you are most interested. There is probably nothing as important as research as you form your decision to become a franchisee. The franchised method of doing business is unique because you not only make a large, up-front investment in an idea, but also in a group of people. Research won't guarantee that you make the right decision but it will certainly increase the probability of being right.

The general areas you will need to investigate are:

A PARTICULAR INDUSTRY
LOCAL MARKET CONDITIONS
THE FRANCHISING PROCESS
A PARTICULAR FRANCHISE
MANAGING A SMALL BUSINESS AND SUPERVISING PEOPLE

Your best friend in this process will be a reference librarian. Don't expect this person to do your work for you, but if you ask for what you need then you will be referred to the right place. This guide is designed to give you a start.

RESEARCHING AN INDUSTRY: There are many guides that can aid you in getting data on specific industries. A good place to look is in magazines and newspapers. Here are some guides:

"Readers Guide to Periodical Literature"--This is an index to articles in popular magazines. You can find a listing under a specific industry or franchising in general.

"Business Periodicals Index"--As the name implies, it is a guide to business periodicals.

"Business Publications Index and Abstracts"--This provides brief summaries of various articles.

"Predicasts F&S, Inc. Index"—Covers over 750 financial publications, business oriented newspapers, product trade magazines, and special reports.

"Wall Street Journal Index"

"New York Times Index"

RESEARCHING FRANCHISING—For general information on franchising.

The International Franchise Association
1350 New York Avenue, N.W.
Suite 900
Washington, D.C. 20005
202/628/8000

This is a lobbying group for franchisors. You can receive publications from them which will be helpful. Remember membership in this organization does not guarantee that a particular franchise is for you.

The U.S. Small Business Administration
144 L Street N.W.
Washington, D.C 20416
202/653/6365

BOOKS

Directory of Franchising Organizations
Pilot Books
247 Fifth Avenue
New York, NY 10016

BOOKS CONT'D

The Franchise Annual Handbook and Directory
INFO Press
736 Center Street
Lewiston, NY 14092

Franchise Rights: A Self-Defense Manual for Dealers, Distributors, Wholesalers, and Other Franchisees
Alexander Hammond
Panel Publishers
Greenvale, NY (1979)

Franchise Opportunities Handbook
Franchising in the Economy

Both of the above are published annually by the U.S. Department of Commerce. To obtain these contact:

Superintendent of Documents
U.S. Government Printing Office
Washington, D.C. 20402

Investigating Before Investing
Published by the International Franchise Association.
See address above.